

THE TOWN OF LEESBURG, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2004

Prepared by the
Department of Finance

TOWN OF LEESBURG

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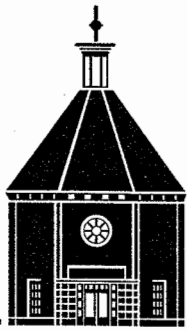
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INTRODUCTORY SECTION





The Town of
**Leesburg,
Virginia**

25 West Market Street ■ P.O. Box 88 ■ 20178 ■ 703-777-2420 ■ Metro: 703-478-1821 ■ FAX: 703-771-2727 ■ www.leesburgva.org

December 1, 2004

The Honorable Mayor and Members of Town Council
Residents of the Town of Leesburg

I am pleased to present the Town's Comprehensive Annual Financial Report for the fiscal year ending June 30, 2004.

This report identifies the Town's financial position and marks the Town's financial activities over the past fiscal year. The year ended with General Fund revenues exceeding expenditures by \$1.5 million and a governmental funds balance of \$17.8 million. I can also report that the Town's financial statements again earned an unqualified audit opinion from its independent auditors.

The Comprehensive Annual Financial Report marks the Town's continued adherence to and refinement of the Town's fiscal policy. The purpose of the fiscal policy is to set forth the policies that establish guidelines for the fiscal stability of the Town. The Town's fiscal policy objectives are to: (1) promote financial stability by establishing clear, concise and consistent guidelines; (2) direct attention to the total financial picture of the Town rather than to single issues; (3) promote the view of linking long-term financial planning with day-to-day operations; (4) provide the Town Council, Town Manager, residents and taxpayers with a framework for measuring the impact of services against established fiscal guidelines; (5) contribute significantly to the Town's ability to shield itself from fiscal crises; and, (6) enhance short- and long-term credit availability by helping to achieve and maintain the highest credit and bond ratings possible.

As you are aware, the Town of Leesburg is the county seat of the fastest growing county in the nation. From 1990 to 2001, Leesburg doubled in population from 16,000 to 32,000. This phenomenal growth shows no sign of slowing down. The Town's current population is an estimated 34,768 and is projected to be 45,000 by 2010. This unprecedented growth which Leesburg is facing is placing significant demands on the Town to provide services to this expanding population. It will take planning and commitment to meet the challenges of efficiently providing the needed services for the current population while developing the necessary infrastructure for the future.

The Honorable Mayor and Members of Town Council
Residents of the Town of Leesburg
December 1, 2004
Page 2

To cope with these demands, the Town, through the budgeting process, funded a significant amount of capital projects related to parks and recreation, streets and highways, storm drainage, water pollution control, and the airport. However, in managing our available resources, we must strike a balance between the demands for additional services and the ability to pay for those services. The increasing rate of growth has increased the need for growth management and has, concurrently, modestly increased the resources available to allocate to those programs. Financial management continues to be critically important in this and future fiscal years.

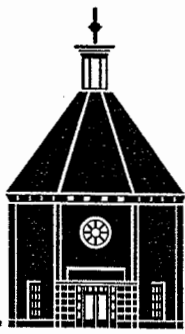
The Town's financial strength is reflected in the current financial statements. It is anticipated that current financial management practices will continue the Town's tradition of fiscal stability. The Council's emphasis on fiscal planning, budget development and sound financial management contributes to the present sound financial condition of the Town and sets the parameters and tasks for next year.

I would like to commend the Department of Finance staff, who have worked diligently to guarantee a successful closure of the Town's books and ensure that our financial records meet the standards required for an unqualified audit opinion. The many improvements that have been made in financial staffing and operations allow the Town to more effectively manage government operations at all levels.

Sincerely,

<Signed>

John Wells
Town Manager



The Town of Leesburg, Virginia

25 West Market Street ■ P.O. Box 88 ■ 20178 ■ 703-777-2420 ■ Metro: 703-478-1821 ■ FAX: 703-771-2727 ■ www.leesburgva.org

December 1, 2004

Mr. John Wells
Town Manager
The Town of Leesburg, Virginia

The Comprehensive Annual Financial Report (CAFR) of the Town of Leesburg (Town) for the fiscal year ended June 30, 2004, is herewith submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Town. To the best of my knowledge and belief, the enclosed financial statements and schedules are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the Town. This report includes all disclosures necessary to enable the reader to gain a useful understanding of the Town's financial activities.

Report Sections

The CAFR is presented in four sections: introductory, financial, statistical, and compliance. The introductory section includes this letter of transmittal, the Town's organizational chart, a list of principal officials and the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting. The financial section includes the independent auditors' report, Management's Discussion and Analysis (MD&A), the basic financial statements, the notes to the basic financial statements, required supplementary information, and other supplementary information which includes combined and individual fund statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multiyear basis. The compliance section contains the auditors' report on internal controls and compliance related to an audit performed in accordance with *Government Auditing Standards*. It has also been prepared in conformity with the provisions of the Single Audit Act Amendments of 1996, the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

Management's Discussion and Analysis

Beginning last year, the Town and many other local governments began presenting an MD&A section. The MD&A is an analysis of the financial condition and operating results of the Town and is intended to introduce the basic financial statements and notes to those statements. The MD&A must be presented in every financial report that includes basic financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The MD&A is presented before the basic financial statements. It is intended to provide an objective and easily readable analysis of the Town's financial activities based on currently known facts, decisions, or conditions. The addition of the MD&A and the government-wide financial statements should provide financial information that will be of interest to user groups who historically have not shown much interest in governmental financial reports. It is recommended that the MD&A be read in conjunction with this letter.

History and Overview of Town Government

The Town of Leesburg, founded in 1758, is one of Virginia's most attractive and vibrant communities. As the seat of government for the country's fastest growing county, Leesburg has been successful at preserving its heritage, while embracing the advantages of being close to the nation's capital. Leesburg is located just 35 miles northwest of Washington, D.C., at the foothills of the Blue Ridge Mountains.

According to the 2000 U.S. Census, the population of the Town of Leesburg was 28,311. Since that time, the Town has experienced a significant amount of growth. The Town's current estimated population is 34,768 and is projected to be 45,000 by 2010.

The Town adopted the Council-Manager form of government in 1962. The governing body of the Town is the Town Council, which formulates policies for the administration of the Town. The Town Council is composed of a Mayor and six Council Members elected at-large for four-year overlapping terms. The Mayor is elected for a two-year term.

The Council appoints a Town Manager to act as executive and administrative head of the Town. The Manager serves at the pleasure of Council, carries out its policies, directs business procedures, and has the power of appointment and removal of all employees. Duties and responsibilities of the Town Manager include preparation, submission and administration of the capital and operating budgets, advising Council on the affairs of the Town, enforcement of the Charter and laws of the Town, and direction and supervision of all departments.

The Town of Leesburg provides a comprehensive range of municipal services including police, water and sewer services, sanitation services, general public improvements, planning and zoning management, airport and general administrative services.

Financial Reporting Entity

This report includes all of the funds of the Town, which comprise the Town's reporting entity for financial reporting purposes.

Local Economy

With direct access to the Washington Dulles International Airport and the Capitol Beltway via the Dulles Greenway toll road, Leesburg is only 20 minutes from the airport and less than an hour from downtown Washington, D.C. Due to the Town's proximity to the diverse Washington, D.C. metropolitan area, the Town has benefited from a robust regional economy fueled by government related employment in the area. As a result, local per capita income levels are well above the state and national averages. The 2000 Census estimated the median household income to be \$68,861.

With a local per capita income level above the state and national averages and unemployment levels below the state and national averages, the Town's fiscal health has continued to flourish. Downtown Leesburg is an active town center with specialty retail coexisting with professional offices drawn by the government and courts complexes. Newer areas on the outskirts of Town, such as the Leesburg Corner Premium Outlet Mall, are attracting revenue producing properties and are contributing substantially to the Town's fiscal well being. Further development surrounding Leesburg Executive Airport offers a viable alternative to locations in the more congested eastern section of the county.

Major Initiatives

One of the more significant challenges facing Leesburg is that associated with growth. The Town is striving to meet the demands and services required of the growing community. The unprecedented growth which Leesburg is facing is placing significant demands on the Town to provide services to this expanding population. To cope with these demands, the Town Council adopted a \$99,106,304 budget for fiscal year 2005 (all funds) and a \$121,849,714 Capital Improvements Program (CIP) for the years 2005-2009.

The budget provides funding for capital projects relating to parks and recreation, streets and highways, storm drainage, water pollution control and the Leesburg Executive Airport. Major projects to be completed in the near future are depicted below:

Parks and Recreation

- Catoctin Circle Trail Southwest
- South King Street Trail – phase I

Streets and Highways

- West Market Street Sidewalk and Drainage
- Rt. 15 Widening (South King Street)
- Dry Mill Road Improvements

Storm Drainage

- Ft. Evans Road Sidewalk and Drainage Improvement
- Edwards Ferry / Colonial Square
- Town Branch Improvements – King Street
- Town Branch Improvements – Mosby Drive

Water Pollution Control

- Water Pollution Control Facility Expansion

Leesburg Executive Airport

- South Apron Expansion and South Exit
- Runway Overlay
- Perimeter Security Fence

Accounting System

The Town's accounting system is organized and operated on a fund basis. A fund is a group of functions combined into a separate accounting entity (corresponding to a corporation in the private sector) having its own assets, liabilities, equity, revenues and expenditures/expenses. The types of funds used are determined by GAAP, and the number of funds established within each type is determined by principles of sound financial administration. Specialized accounting and reporting principles and practices apply to governmental funds. Proprietary funds are accounted for in the same manner as similar business enterprises.

Internal Control

Management of the Town is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Town are protected from loss, theft or misuse and to ensure that adequate accounting data are processed and summarized to allow for the preparation of financial statements in conformity with GAAP. The internal control structure is designed to provide reasonable, but not absolute, assurances that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and, (2) the valuation for costs and benefits require estimates and judgments by management.

Budgetary Control

The Town maintains budgetary controls designed to monitor compliance with expenditure limitations contained in the annual appropriated budget approved by the Town Council. A project-length financial plan is adopted for the Capital Projects Funds. The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is established by department within the General Fund. The Town Manager has authority to amend or transfer appropriations within departments. The Town also maintains an encumbrance recording system as one technique of accomplishing budgetary control. Open encumbrances for the general fund are reported as a reservation on the fund balance at the end of the fiscal year.

The annual appropriated budget is prepared largely on a modified accrual basis because certain revenues are allowed by law to be collected after the fiscal year and used to pay the liabilities of the current year. These revenues include property taxes.

Reporting Standards

The financial information included in this report is presented in accordance with the following standards:

- accounting principles generally accepted in the United States of America, which are uniform minimum standards and guidelines for financial accounting and reporting in the United States;
- governmental accounting and financial reporting statements, interpretations and technical bulletins issued by the Governmental Accounting Standards Board; and,
- uniform financial reporting standards for counties, cities and towns issued by the Commonwealth of Virginia's Auditor of Public Accounts.

Financial Management

The primary objectives of the Town's financial management program are:

- promote financial stability by establishing clear, concise and consistent guidelines;
- direct attention to the total financial picture of the Town rather than to single issues;
- promote the view of linking long-term financial planning with day-to-day operations;
- provide the Town Council, Town Manager, residents and taxpayers with a framework for measuring the impact of services against established fiscal guidelines;
- contribute significantly to the Town's ability to shield itself from fiscal crises; and,
- enhance short and long-term credit availability by helping to achieve and maintain the highest credit and bond ratings possible.

Cash Management

As a local government unit in the Commonwealth of Virginia, the Town is restricted by the Virginia Security for Public Deposits Act in utilizing depositories that have been qualified for investments by the Commonwealth of Virginia. Accordingly, deposits were either insured by federal depository insurance or highly collateralized. Funds are invested in cash and cash equivalents with maturities planned to coincide with cash needs.

Risk Management

The Town is exposed to various risks of losses related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. To reduce insurance costs and the need for self-insurance, the Town has joined with other municipalities in the Commonwealth of Virginia in several public entity risk pools that operate as common risk management and insurance programs for member municipalities.

Independent Audit

Section 15.2-2511 of the *Code of Virginia* requires an annual audit by licensed independent certified public accountants. The Town selected the accounting firm of PBGH, LLP. In addition to meeting the requirements of the Single Audit Act Amendments of 1996 and the related U.S. Office of Management and Budget Circular A-133, the independent auditors' report on the basic financial statements is included in the financial section of this report.

Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Leesburg for its comprehensive annual financial report for the fiscal year ended June 30, 2003. The Certificate of Achievement in Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such reports must also satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement in Financial Reporting is valid for a period of one year only. The Town has received a Certificate of Achievement for the last 17 consecutive years. The Town believes that the current comprehensive annual financial report continues to conform to the Certificate of Achievement program requirements and it will be submitted to the GFOA for review.

Acknowledgements

I want to thank the Department of Finance personnel who have worked diligently with the auditors. I appreciate their efforts, which have continued to be an important factor in the preparation of the basic financial statements. I also thank the Town's independent auditors, PBGH, LLP for their efforts throughout the audit engagement.

Respectfully submitted,

<Signed>

Norman D. Butts
Director of Finance



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Leesburg,
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



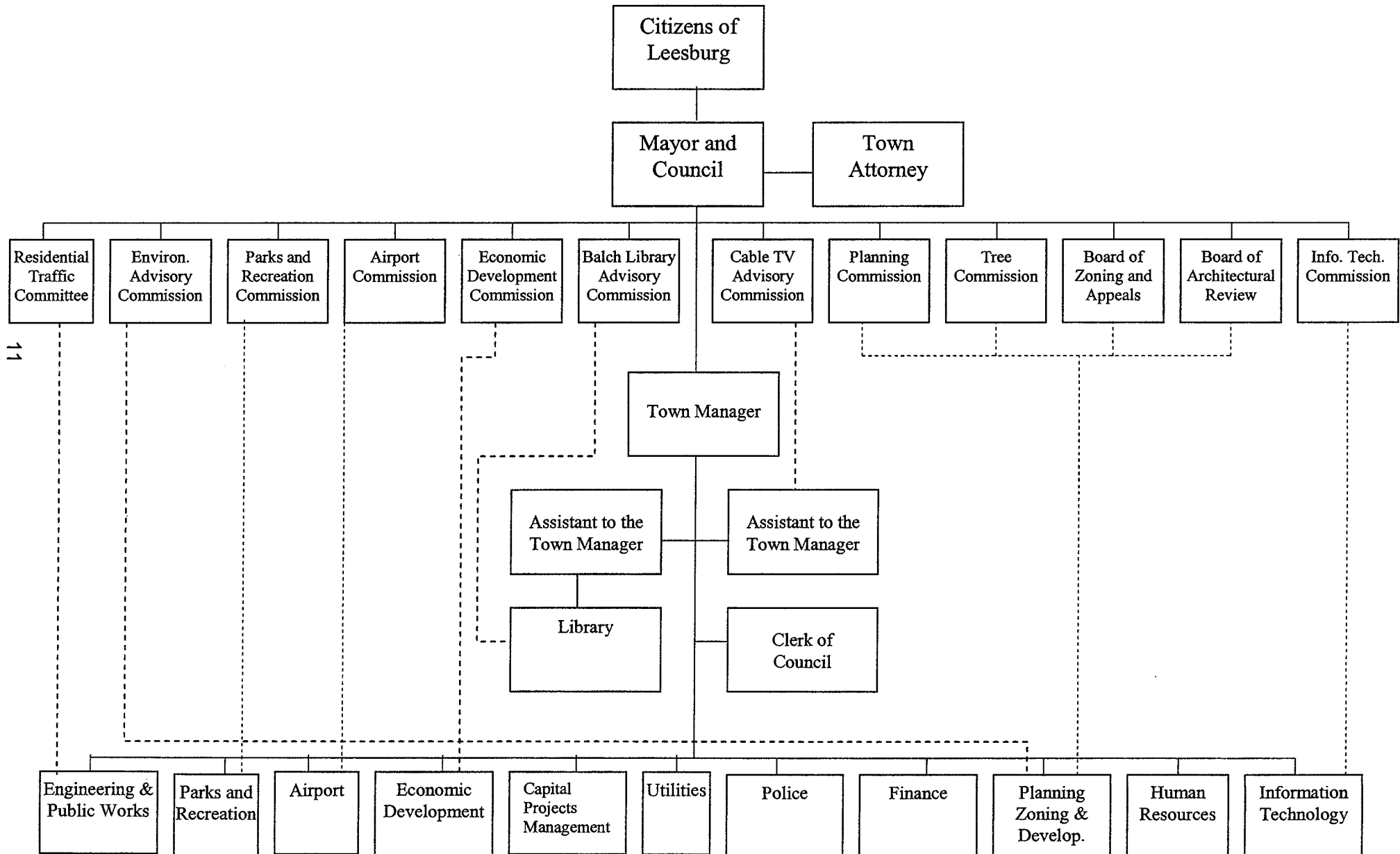
Nancy L. Ziehl

President

Jeffrey R. Emer

Executive Director

Town of Leesburg Organizational Chart



TOWN OF LEESBURG, VIRGINIA

LIST OF PRINCIPAL OFFICIALS

June 30, 2004

TOWN COUNCIL

Kristen C. Umstattd, Mayor
Mervin V. Jackson, Vice Mayor
James F. "Frank" Buttery, Jr.
Melinda H. Kramer
Fernando "Marty" Martinez
David B. Schmidt
Robert J. Zoldos

TOWN OFFICIALS

Robert S. Noe, Jr., Town Manager
Norman D. Butts, Director of Finance
William Donnelly, III, Town Attorney
Judith W. Ahalt, Clerk of Council
Thomas A. Mason, Director of Engineering and Public Works
Susan Swift, Director of Planning, Zoning and Development
Randolph W. Shoemaker, Director of Utilities
Kaj Dentler, Director of Parks and Recreation
Dona Wolf, Human Resources Director
Wendy Wickens, Director of Information Technology
Cindi Martin, Airport Director
Joseph R. Price, Police Chief



INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of Council
Town of Leesburg
Leesburg, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Leesburg, Virginia, as of and for the year ended June 30, 2004, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Leesburg, Virginia, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 5, 2004 on our consideration of the Town of Leesburg's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis (pages 15 to 24) and the required supplementary information (page 62) are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Town of Leesburg, Virginia's basic financial statements. The combining nonmajor fund financial statements and other schedules, listed in the table of contents as supplementary information, and the Schedule of Expenditures of Federal Awards as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

We did not audit the other data included in this report, designated as the "Introductory Section" and the "Statistical Section" in the table of contents of this report and, accordingly, we express no opinion on such data.

PB&H, LLP

Harrisonburg, Virginia
November 5, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the Town of Leesburg's (the Town's) financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the transmittal letter at the front of this report and the Town's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2004

The general fund, on a current financial resource basis, reported revenues and other financing sources in excess of expenditures and other financing uses of \$3.1 million (Exhibit 5).

The Town's total net assets for governmental activities totaled \$122.8 million at June 30, 2004, an increase of \$16.4 million (Exhibit 2). Of this amount, \$16.7 million is unrestricted (Exhibit 1).

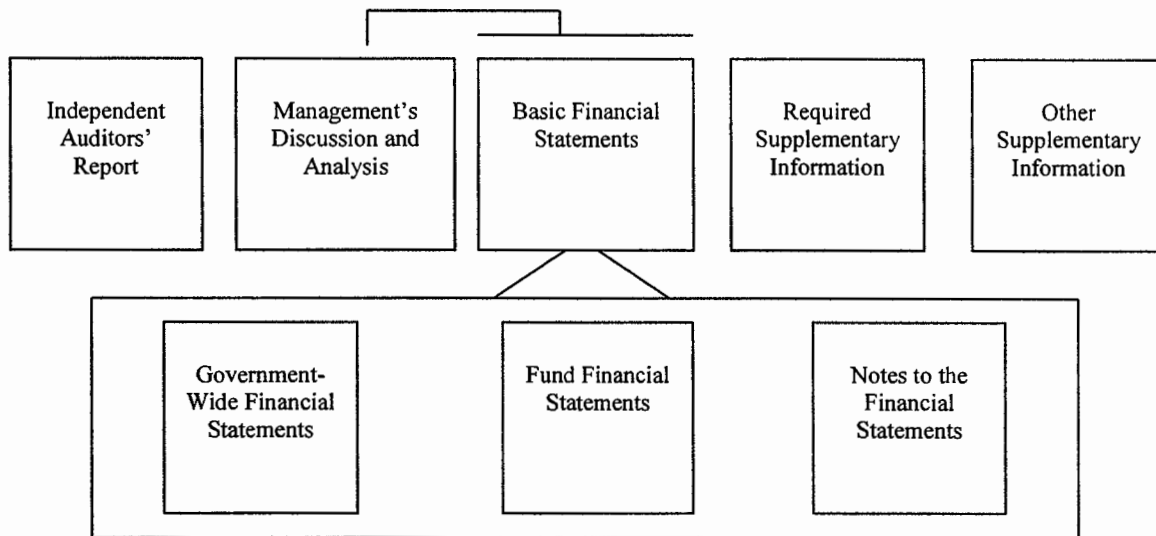
In November 2003, the Town sold \$1.4 million in general obligation bonds at a stated interest rate of 3.6%. The tax-exempt bonds, which will mature incrementally over the next 15 years, will be used to finance public improvements, such as parks, streets and storm sewers.

In March 2004, the Town sold \$2.9 million in general obligation refunding bonds at a stated interest rate of 2.36%. The tax-exempt bonds, which will mature incrementally over the next 6 years, will be used to advance refund certain maturities of the series 1996 general obligation bonds.

USING THE FINANCIAL SECTION OF THIS COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report consists of four sections: introductory, financial, statistical, and compliance. As the following chart shows, the financial section of this report has five components – *Independent auditors' report, Management's Discussion and Analysis (this section), the basic financial statements, the notes to the basic financial statements, the required supplementary information and other supplementary information.*

Components of the Financial Section



GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information about the Town as a whole using accounting methods similar to those used by private-sector companies. The government-wide financial statements provide both long-term and short-term information about the Town's overall financial status. One of the most important questions asked about the Town's finances is, "Is the Town's financial position, as a whole, better or worse as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which are the government-wide statements, report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The government-wide statements report the Town's net assets and changes in those assets. The Town's net assets position -- the difference between assets and liabilities -- is one way to measure the Town's financial health, or financial position. Over time, increases or decreases in the Town's net assets are one indicator of whether its financial health is improving or declining. Other non-financial factors will need to be considered, however, such as changes in the Town's property tax base and the condition of the Town's infrastructure, to assess the overall health of the Town.

The Statement of Net Assets and the Statement of Activities include the following:

Governmental activities - Most of the Town's basic services are reported here: public safety, engineering and public works, library, parks and recreation, planning, zoning and development and general administration. Property taxes, other local taxes, and state and federal grants finance most of these activities.

Business-type activities - The Town's water and sewer operations (utilities fund) and airport fund are reported as business-type activities (also referred to as proprietary funds). The Town charges a fee to cover all or most of the cost of the services provided.

FUND FINANCIAL STATEMENTS

The Fund financial statements provide additional information about the Town's most significant funds - not the Town as a whole. Fund financial statements focus on the individual parts of Town government.

The Town has two types of funds, governmental and proprietary.

Governmental Funds - Most of the Town's basic services are included in governmental funds, which focus on the cash flow (1) cash and other financial assets that can readily be converted to cash (2) and the available balances left at year-end. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided that explains the relationship (or differences) between them.

Proprietary Funds - Services for which the Town charges customers a fee are generally reported in proprietary funds. Proprietary fund statements, like the government-wide statements, provide both long and short-term financial information. In fact, the Town's enterprise fund (one type of propriety fund) is the same as its business-type activities, but the fund financial statements provide more detail and additional information, such as cash flows.

Notes to the Financial Statements – The notes provide information essential to a full understanding of the data provided in the government-wide and fund financial statements.

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

This is the second year the Town has applied Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*. This allows us to make comparisons of the financial data to the prior year thereby enabling the reader to more readily judge the fiscal health of the Town at year-end.

Statement of Net Assets:

The following table presents the condensed Statement of Net Assets:

Table 1.

Summary Statement of Net Assets Comparison as of June 30, 2004 and 2003 (amounts in thousands)

	Activities				Totals	
	Governmental		Business-Type		2004	2003
	2004	2003	2004	2003		
Current and other assets	\$ 31,519	\$ 25,970	\$ 47,163	\$ 45,510	\$ 78,682	\$ 71,480
Capital assets	144,677	132,914	132,853	128,168	277,530	261,082
Total assets	<u>176,196</u>	<u>158,884</u>	<u>180,016</u>	<u>173,678</u>	<u>356,212</u>	<u>332,562</u>
Current and other liabilities	17,369	14,512	4,650	4,870	22,019	19,382
Long-term liabilities	36,019	38,016	37,260	38,429	73,279	76,445
Total liabilities	<u>53,388</u>	<u>52,528</u>	<u>41,910</u>	<u>43,299</u>	<u>95,298</u>	<u>95,827</u>
Net assets:						
Invested in capital assets, net of related debt	105,995	92,944	94,484	88,843	200,479	181,787
Restricted	42	-	-	-	42	-
Unrestricted	16,771	13,412	43,622	41,536	60,393	54,948
Total net assets	<u>\$ 122,808</u>	<u>\$ 106,356</u>	<u>\$ 138,106</u>	<u>\$ 130,379</u>	<u>\$ 260,914</u>	<u>\$ 236,735</u>

The Town's governmental net assets (which are the Town's "bottom line") increased by fifteen percent, or \$16.4 million, to \$122.8 million primarily as a result of budgeted pay down of long term debt and state and developer donated capital additions for infrastructure. The increase in the Town's short-term assets is primarily attributable to the increase in the assessed value of real property and business tax increases. The Town's capital assets increased \$11.8 million, including contributions to the Town's public works infrastructure. The net assets of business-type activities increased \$7.7 million.

Statement of Activities:

The following table shows the revenue and expenses of the governmental and business-type activities.

Table 2.

Summary of Change in Net Assets Comparison as of June 30, 2004 and 2003 (amounts in thousands)

	Activities				Totals	
	Governmental		Business-Type			
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$ 3,879	\$ 3,002	\$ 9,574	\$ 8,658	\$ 13,453	\$ 11,660
Operating grants and contributions	2,643	6,744	-	-	2,643	6,744
Capital grants and contributions	14,032	1,485	13,372	13,544	27,404	15,029
General revenues:						
Property taxes	9,869	8,658	-	-	9,869	8,658
Other local taxes	13,300	11,441	-	-	13,300	11,441
Other	2,464	2,113	255	743	2,719	2,856
Total revenues	46,187	33,443	23,201	22,945	69,388	56,388
Operating Expenses						
Legislative	267	231	-	-	267	231
Executive	2,772	2,736	-	-	2,772	2,736
Legal	193	193	-	-	193	193
Planning, zoning and development	1,642	1,423	-	-	1,642	1,423
Finance	1,806	1,655	-	-	1,806	1,655
Public safety	7,109	6,665	-	-	7,109	6,665
Parks and recreation	4,947	4,968	-	-	4,947	4,968
Balch Library	503	533	-	-	503	533
Engineering and public works	10,593	9,482	-	-	10,593	9,482
Interest	1,846	1,860	-	-	1,846	1,860
Airport	-	-	1,369	1,277	1,369	1,277
Water and sewer	-	-	12,162	12,085	12,162	12,085
Total expenses	31,678	29,746	13,531	13,362	45,209	43,108
Increase in net assets before transfers	14,509	3,697	9,670	9,583	24,179	13,280
Transfers in (out)	1,943	1,814	(1,943)	(1,814)	-	-
Increase in net assets	16,452	5,511	7,727	7,769	24,179	13,280
Net assets, beginning	106,356	100,845	130,379	122,610	236,735	223,455
Net assets, ending	\$ 122,808	\$ 106,356	\$ 138,106	\$ 130,379	\$ 260,914	\$ 236,735

REVENUES

For the fiscal year ended June 30, 2004, revenues from governmental activities totaled \$46.2 million, a net increase from fiscal year 2003 of \$12.8 million. This increase is primarily attributable to the value of donated infrastructure (streets, sidewalks, curbs) and land recorded in capital grants and contributions in the amount of \$12 million.

Real and personal property tax revenues, the Town's largest revenue source, were \$9.9 million, an increase of \$1.2 million from fiscal year 2003. The increase in tax revenues is attributable to an increase of 15.7% in the Town's assessed real property tax base for calendar year 2004.

Capital grants and contributions are primarily comprised of Town road projects managed and paid for by the Commonwealth of Virginia and/or developers. Once completed, these assets are turned over to the Town for maintenance. The increase relates to the timing of completed projects as determined by the Commonwealth.

Revenue from business-type activities increased a modest 1.1% during the fiscal year.

EXPENSES

For the fiscal year ended June 30, 2004 expenses for governmental activities totaled \$31.7 million, an increase of \$2.0 million or 6.5%. These increases were primarily due to the need to increase base services for our expanding population and staff increases including public safety and public works.

The expenses for the business-type funds increased by 1.3% staying in line with the increase in revenue cited above.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Governmental Funds

Major governmental funds consist of the general fund and two capital projects funds providing for the majority of the governmental operations of the Town. For the fiscal year ended June 30, 2004, the governmental funds reflect a combined fund balance of \$17.8 million. The fund balance increase of \$3.6 million is due to increased revenues of \$4.1 million.

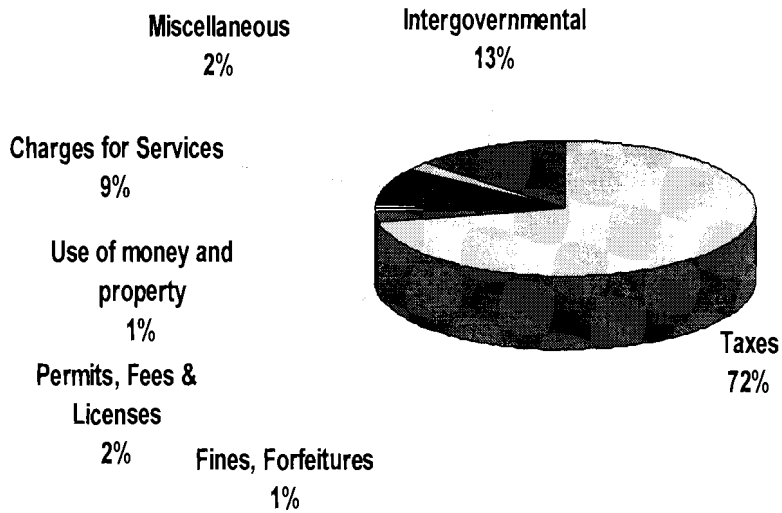
As of June 30, 2004, the Town's general fund undesignated fund balance that could be used for future purposes was \$7.9 million or an increase of \$2.4 million from the previous year. The Town Council has adopted a policy that 10% of annual expenditures (\$3.1million for this year) is the minimum unreserved balance required to be maintained at all times.

The increase in assessed value of real property in the Town continues to provide growth in tax revenue. In addition, this year saw an increase in the aggregate taxes on meals, transient occupancy, sales and use and cigarettes reflecting the turnaround in the area economy.

Except for reservations of fund balances cited above, there are no significant limitations on fund balances affecting the availability of fund resources for future uses.

Chart 1.

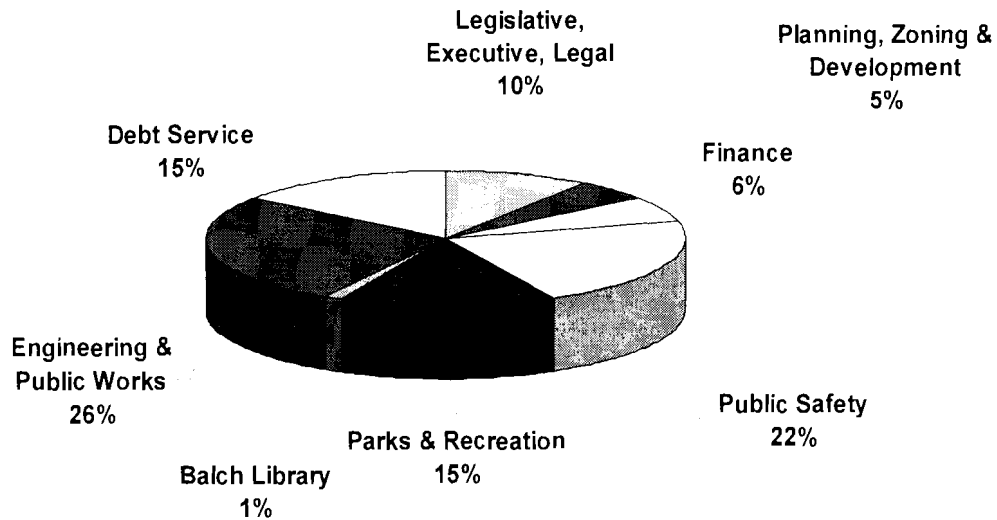
Fiscal Year 2004 General Fund Revenues (Actual)



Actual revenue exceeded budgeted revenue by \$2.4 million in fiscal year 04 while actual expenditures were virtually on target for projections during the budget cycle.

Chart 2.

Fiscal Year 2004 General Fund Expenditures (Actual)



General Fund Budgetary Highlights

Table 3.

Fiscal Year 2004 Budget Comparison of Budget and Actual (amounts in thousands)

	Original Budget	Amended Budget	Actual	Variance With Final Budget Over (Under)
Revenues				
Taxes	\$ 24,009	\$ 24,009	\$ 23,232	\$ (777)
Permits, fees, licenses	498	498	805	307
Fines, forfeitures	225	225	296	71
Use of money and property	319	319	270	(49)
Charges for services	2,114	2,114	2,778	664
Miscellaneous	258	258	573	315
Intergovernmental	2,579	2,579	4,318	1,739
Total	30,002	30,002	32,272	2,270
Expenditures				
Legislative, executive, legal	3,656	4,266	2,938	(1,328)
Planning, zoning and development	1,818	1,818	1,617	(201)
Finance	1,775	1,775	1,796	21
Public safety	7,241	7,357	6,558	(799)
Parks and recreation	4,526	4,555	4,471	(84)
Balch Library	379	379	314	(65)
Engineering and public works	9,669	9,708	8,618	(1,090)
Debt service: principal and interest	4,557	4,557	4,459	(98)
Total	33,621	34,415	30,771	(3,644)
Revenues over (under) expenditures	\$ (3,619)	\$ (4,413)	\$ 1,501	\$ (5,914)

Proprietary Funds

The Town's business-type funds consist of the water and sewer fund and the airport fund. Fees paid by users of Town provided water and sewer services solely support water and sewer activities. Revenues generated by these fees are sufficient to provide for annual operating costs as well as long-term debt service payments as prescribed by the bond agreements.

For the fiscal year ending June 30, 2004, the water and sewer fund's unrestricted net assets were \$44.6 million, an increase of \$3.2 million from the prior fiscal year. Revenue again remained strong with the continued steady collection of availability fees and service fees from commercial and residential construction in town. Expenses remained virtually unchanged from the prior year at \$12.2 million.

Airport revenues consist of leases, fixed based operator fees, tie down fees as well as FAA grants. These revenues provide the majority operational support of the municipal airport as well as capital expenses, i.e. hangar expansion and runway improvements.

CAPITAL ASSETS

At the end of fiscal year 2004, the Town's governmental activities had invested \$144.7 million in capital assets and infrastructure, as reflected in the following table. This represents an increase, net of depreciation, of \$11.8 million from the prior year. The majority of the increase comes from contributed roads, sidewalks, curbs and right of way land. The balance of the increase is in construction in progress for major capital improvement projects not completed as of June 30, 2004. Please refer to Note 6 of the footnotes for a more detailed presentation of the capital assets.

Table 4.

Capital Assets
Comparison as of June 30, 2004 and 2003
(amounts in thousands)

	Governmental Activities			Business-Type Activities		
	2004	2003	Change	2004	2003	Change
Buildings and improvements \$	46,261	\$ 46,011	\$ 250	\$ 6,513	\$ 2,236	\$ 4,277
Land	28,107	25,071	3,036	10,707	10,675	32
Runway	-	-	-	12,425	12,425	-
Equipment	2,896	2,744	152	3,310	3,235	75
Software	-	-	-	13	13	-
Vehicles	2,403	2,625	(222)	-	-	-
Infrastructure	94,016	85,048	8,968	-	-	-
Construction in progress	3,245	636	2,609	5,682	5,164	518
Water and sewer systems	-	-	-	121,345	118,472	2,873
Hangars	-	-	-	3,354	3,185	169
Accumulated depreciation	(32,251)	(29,221)	(3,030)	(30,496)	(27,237)	(3,259)
Capital assets, net of accumulated depreciation	\$ 144,677	\$ 132,914	\$ 11,763	\$ 132,853	\$ 128,168	\$ 4,685

The fiscal year 2004 increase in construction in progress includes work on the Town's infrastructure. The Town added \$12 million in infrastructure assets for fiscal year 2004, primarily for roads completed by the State and/or developers and turned over to the Town. Infrastructure assets include roads, bridges, sidewalks, curbs and gutters. These assets, which are stationary and can be preserved for significantly longer than most capital assets, were included in the Town's financial statements for the first time in fiscal year 2003.

The fiscal year 2004 – 2008 Capital Improvement Program (CIP), approved by Town Council in July 2003, sets forth a five-year, \$98.4 million program of public improvements for the Town. The plan includes an increase (in Town funding) of approximately \$4.7 million over the fiscal year 2003-2007 CIP. This increase is primarily due to increases in streets and highways and storm drainage projects.

LONG-TERM DEBT

At the end of fiscal year 2004, the Town had total long-term bonds outstanding of \$79.3 million, a \$2 million (6.7%) decrease from last year. The change represents the net difference of issuance of \$4.2 million in new debt and payments of long-term debt of \$6.2 million. Of the outstanding amount, \$38.6 is for governmental activities with the remaining \$40.7 million for business-type activities (\$35.9 million utilities fund/ \$4.8 million airport fund). Long-term liabilities also include approximately \$1.2 million in compensated balances.

During 2004, the Town retained its bond ratings of A1 and AA- from *Moody's Investors Services, Inc.* and *Standard & Poor's Credit Market Services*, respectively.

The Commonwealth limits the amount of general obligation debt the Town can issue to ten percent of the assessed value of real property within the Town. The Town's outstanding general obligation debt is significantly below or less than one-tenth of this limit - currently \$413 million. Please refer to Note 8 of the footnotes for a more detailed presentation of the long-term liabilities of the Town.

ECONOMIC FACTORS

As the seat of the nation's fastest growing county, the Town continues to enjoy both population and job growth. Although the Town's population has increased 22.8% since 2000, the growth rate has slowed considerably as the Town approaches residential build out. In 2004, the population was 34,768, representing a 4% annual growth rate.

As the population growth slows, however, job growth is anticipated to increase. Office and retail vacancy rates are extremely low, spurring both a significant upswing in commercial building and a rise in lease rates. Nearly 500,000 square feet of new retail space was added to the Leesburg market in 2004. In addition, 45,000 square feet of new Class A office space was completed, most of it built on a speculative basis and now fully leased. An additional 735,000 square feet of commercial space is under development and expected to deliver in 2005, representing a nearly 9% increase in total commercial space in the town. Office lease rates range from \$17.00/square foot for Class C to \$33.00/square foot for Class A, depending upon location and amenities. Retail lease rates have a similar range, with the newest space going for \$35.00/square foot.

Leesburg continues to be a relatively affluent community. Both average household and per capita income are above state and national averages, at \$101,110 and \$46,818 respectively. Housing prices have kept pace with the surrounding areas, with the average single family home selling for over \$350,000.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our residents, taxpayers, customers, investors, and creditors with an overview of the Town's finances and to demonstrate the Town's accountability for the money it receives.

Questions concerning this report or requests for additional financial information should be directed to the Director of Finance, 25 West Market Street, P.O. Box 88, Leesburg, VA 20178, telephone (703) 777-2420, or visit the Town's web site at www.leesburgva.gov.

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STATEMENT OF NET ASSETS
June 30, 2004

	Governmental Activities	Business-type Activities	Totals
ASSETS			
Cash, cash equivalents and temporary cash investments	\$ 15,159,414	\$ 45,218,192	\$ 60,377,606
Receivables, net:			
Property taxes, including penalties	5,010,355	-	5,010,355
Utility taxes	171,726	-	171,726
Local taxes	901,754	-	901,754
Trade and other accounts	70,961	1,973,270	2,044,231
Accrued interest	23,108	133,591	156,699
Due from other governments	2,449,999	390,839	2,840,838
Restricted cash	6,945,423	5,354	6,950,777
Deferred charges	-	139,838	139,838
Internal balances	697,736	(697,736)	-
Financing costs, net	88,962	-	88,962
Capital assets:			
Land	28,107,195	10,706,430	38,813,625
Buildings and improvements	46,260,588	6,513,373	52,773,961
Water system	-	48,608,018	48,608,018
Sewer system	-	72,736,494	72,736,494
Equipment	2,895,674	3,310,382	6,206,056
Vehicles	2,403,558	-	2,403,558
Hangars	-	3,353,603	3,353,603
Runway	-	12,424,868	12,424,868
Software	-	13,000	13,000
Infrastructure	94,016,472	-	94,016,472
Construction in progress	3,245,290	5,681,976	8,927,266
Less: accumulated depreciation	(32,251,370)	(30,495,700)	(62,747,070)
Total assets	176,196,845	180,015,792	356,212,637
LIABILITIES			
Accounts payable	1,062,673	978,892	2,041,565
Accrued payroll	442,635	123,372	566,007
Other accrued liabilities	66,104	-	66,104
Accrued interest	609,473	862,575	1,472,048
Compensated absences	695,332	238,699	934,031
Retainage payable	95,169	265,430	360,599
Customer deposits and contingent charges	6,905,339	996,449	7,901,788
Deferred revenue	4,619,243	-	4,619,243
Noncurrent liabilities			
Due within one year	2,873,294	1,184,328	4,057,622
Due in more than one year	36,019,231	37,260,024	73,279,255
Total liabilities	53,388,493	41,909,769	95,298,262
NET ASSETS			
Invested in capital assets, net of related debt	105,994,731	94,484,042	200,478,773
Restricted for law enforcement	42,535	-	42,535
Unrestricted	16,771,086	43,621,981	60,393,067
Total net assets	\$122,808,352	\$138,106,023	\$260,914,375

See Notes to Financial Statements.

STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Primary Government:							
Governmental activities:							
Legislative	\$ 266,719	\$ -	\$ -	\$ -	\$ (266,719)	\$ -	\$ (266,719)
Executive	2,772,493	-	-	-	(2,772,493)	-	(2,772,493)
Legal	192,841	-	-	-	(192,841)	-	(192,841)
Planning, zoning and development	1,641,747	413,206	-	-	(1,228,541)	-	(1,228,541)
Finance	1,806,230	-	-	-	(1,806,230)	-	(1,806,230)
Public safety	7,109,226	297,076	862,441	117,780	(5,831,929)	-	(5,831,929)
Parks and recreation	4,946,786	2,770,756	-	100,000	(2,076,030)	-	(2,076,030)
Balch Library	503,146	-	17,000	-	(486,146)	-	(486,146)
Engineering and public works	10,593,496	398,304	1,763,768	13,813,758	5,382,334	-	5,382,334
Interest	1,845,700	-	-	-	(1,845,700)	-	(1,845,700)
Total governmental activities	31,678,384	3,879,342	2,643,209	14,031,538	(11,124,295)	-	(11,124,295)
Business-type activities:							
Airport	1,369,049	867,016	-	1,736,596	-	1,234,563	1,234,563
Water and sewer	12,162,497	8,707,079	-	11,635,342	-	8,179,924	8,179,924
Total business-type activities	13,531,546	9,574,095	-	13,371,938	-	9,414,487	9,414,487
Total government	\$45,209,930	\$13,453,437	\$ 2,643,209	\$27,403,476	(11,124,295)	9,414,487	(1,709,808)
General Revenues:							
Taxes:							
General property taxes, including penalties					9,869,334	-	9,869,334
Other local taxes:							
Sales and use					3,530,722	-	3,530,722
Meals					2,473,345	-	2,473,345
Business and occupational licenses					2,087,754	-	2,087,754
Utility					1,998,824	-	1,998,824
Cigarette					1,065,875	-	1,065,875
Other					2,143,587	-	2,143,587
Intergovernmental, non-categorical aid					1,556,771	-	1,556,771
Use of money and property					331,183	188,239	519,422
Miscellaneous					575,930	67,730	643,660
Transfers					1,943,000	(1,943,000)	-
Total general revenues and transfers					27,576,325	(1,687,031)	25,889,294
Change in net assets					16,452,030	7,727,456	24,179,486
Net assets, beginning					106,356,322	130,378,567	236,734,889
Net assets, ending					\$122,808,352	\$ 138,106,023	\$ 260,914,375

See Notes to Financial Statements.

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	General	Capital Projects		Other Governmental Funds	Total Governmental Funds
		Highways	Buildings		
ASSETS					
Cash, cash equivalents, and temporary cash investments	\$ 8,267,454	\$ 2,232,368	\$ 107,588	\$ 4,552,004	\$ 15,159,414
Receivables, net					
Property taxes, including penalties	5,010,355	-	-	-	5,010,355
Utility taxes	171,726	-	-	-	171,726
Local taxes	901,754	-	-	-	901,754
Accounts	70,961	-	-	-	70,961
Accrued interest	23,108	-	-	-	23,108
Advances to other funds	697,736	-	-	-	697,736
Due from other governments	1,517,961	832,038	-	100,000	2,449,999
Restricted cash	6,906,005	-	39,418	-	6,945,423
Total assets	\$ 23,567,060	\$ 3,064,406	\$ 147,006	\$ 4,652,004	\$ 31,430,476
LIABILITIES					
Accounts payable	\$ 642,738	\$ 306,156	\$ -	\$ 113,779	\$ 1,062,673
Accrued payroll	442,635	-	-	-	442,635
Other accrued liabilities	66,104	-	-	-	66,104
Retainage payable	-	73,709	5,000	16,460	95,169
Customer deposits and contingent charges	6,905,339	-	-	-	6,905,339
Deferred revenues	5,090,866	-	-	-	5,090,866
Total liabilities	13,147,682	379,865	5,000	130,239	13,662,786
FUND BALANCES					
Reserved for:					
Encumbrances	1,714,783	-	-	-	1,714,783
Advances to other funds	697,736	-	-	-	697,736
Law enforcement expenses	42,535	-	-	-	42,535
Unreserved:					
Undesignated:					
General fund	7,964,324	-	-	-	7,964,324
Capital projects funds	-	2,684,541	142,006	3,091,061	5,917,608
Special revenue funds	-	-	-	1,430,704	1,430,704
Total fund balances	10,419,378	2,684,541	142,006	4,521,765	17,767,690
Total liabilities and fund balances	\$ 23,567,060	\$ 3,064,406	\$ 147,006	\$ 4,652,004	\$ 31,430,476

See Notes to Financial Statements.

**RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2004**

Total fund balances - governmental funds \$ 17,767,690

Amounts reported for governmental activities
in the Statement of Net Assets are different because:

Capital assets used in governmental activities
are not current financial resources and therefore
not reported in the governmental funds.

Governmental capital assets	\$ 176,928,777	
Less: accumulated depreciation	(32,251,370)	
Net capital assets		144,677,407

Deferred revenue represents amounts that
were not available to fund current expenditures
and therefore is not reported as revenue in the
governmental funds.

471,623

Other assets used in governmental activities are not
financial resources and therefore are not reported in
the governmental funds.

Financing costs		88,962
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Long-term liabilities, including bonds payable,
are not due and payable in the current period and
therefore are not reported as liabilities in the
governmental funds.

Bonds payable	(38,462,843)	
Leases payable	(179,833)	
Note payable	(40,000)	
Compensated absences	(905,181)	
Interest payable	(609,473)	
		(40,197,330)

Net assets of governmental activities		\$ 122,808,352
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STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2004

	General	Capital Projects		Other Governmental Funds	Total Governmental Funds
		Highways	Buildings		
Revenues:					
General property taxes	\$ 9,936,500	\$ -	\$ -	\$ -	\$ 9,936,500
Other local taxes	13,295,107	5,000	-	-	13,300,107
Permits, fees and licenses	804,774	-	-	-	804,774
Fines and forfeitures	295,941	-	-	-	295,941
Use of money and property	270,078	15,654	-	45,451	331,183
Charges for services	2,778,627	-	-	-	2,778,627
Miscellaneous	573,041	2,000	-	889	575,930
Intergovernmental	4,317,760	1,809,151	-	100,000	6,226,911
Total revenues	32,271,828	1,831,805	-	146,340	34,249,973
Expenditures:					
Current:					
Legislative	267,332	-	-	-	267,332
Executive	2,477,650	-	-	-	2,477,650
Legal	192,706	-	-	-	192,706
Planning, zoning and development	1,616,587	-	-	-	1,616,587
Finance	1,796,403	-	-	-	1,796,403
Public safety	6,558,428	-	-	300,000	6,858,428
Parks and recreation	4,471,020	-	-	-	4,471,020
Balch Library	314,349	-	-	-	314,349
Engineering and public works	8,617,698	-	-	-	8,617,698
Capital projects	-	2,152,209	144,660	586,166	2,883,035
Debt service:					
Principal	2,674,443	-	-	-	2,674,443
Interest and fiscal charges	1,784,228	-	-	-	1,784,228
Total expenditures	30,770,844	2,152,209	144,660	886,166	33,953,879
Revenues over (under) expenditures	1,500,984	(320,404)	(144,660)	(739,826)	296,094
Other Financing Sources (Uses):					
Debt issuance	2,658,329	435,000	-	915,000	4,008,329
Payment to escrow agent	(2,633,814)	-	-	-	(2,633,814)
Transfers in	2,136,900	540,000	-	40,000	2,716,900
Transfers out	(580,000)	-	-	(193,900)	(773,900)
Other financing sources, net	1,581,415	975,000	-	761,100	3,317,515
Net change in fund balances	3,082,399	654,596	(144,660)	21,274	3,613,609
Fund balances, beginning	7,336,979	2,029,945	286,666	4,500,491	14,154,081
Fund balances, ending	\$ 10,419,378	\$ 2,684,541	\$ 142,006	\$ 4,521,765	\$ 17,767,690

See Notes to Financial Statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2004**

	Governmental Funds	
Net change in fund balances - total governmental funds	\$ 3,613,609	
Reconciliation of amounts reported for governmental activities in the Statement of Activities:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Expenditure for capital assets	\$ 3,150,882	
Donated capital assets	12,004,607	
Less depreciation expense	(3,392,503)	
Excess of capital outlay over depreciation	<u>11,762,986</u>	11,762,986
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in deferred revenue		(67,166)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds were less than repayments.		
Debt issued or incurred:		
General obligation bonds	(4,008,329)	
Principal repayments:		
General obligation debt	2,674,443	
Payment to escrow agent for refunding	<u>2,633,814</u>	1,299,928
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Accrued interest	(62,419)	
Compensated absences	(95,855)	
Debt issuance costs	24,516	
Amortization of premium, financing costs and deferred loss on refunding	<u>(23,569)</u>	(157,327)
Change in net assets of governmental activities		<u><u>\$ 16,452,030</u></u>

TOWN OF LEESBURG, VIRGINIA

Exhibit 7

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL - GENERAL FUND
Year Ended June 30, 2004**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final	Amounts	
Revenues:				
General property taxes	\$ 11,349,000	\$ 11,349,000	\$ 9,936,500	\$ (1,412,500)
Other local taxes	12,660,000	12,660,000	13,295,107	635,107
Permits, fees and licenses	498,000	498,000	804,774	306,774
Fines and forfeitures	225,000	225,000	295,941	70,941
Use of money and property	319,000	319,000	270,078	(48,922)
Charges for services	2,113,900	2,113,900	2,778,627	664,727
Miscellaneous	257,800	257,800	573,041	315,241
Intergovernmental	2,579,644	2,579,644	4,317,760	1,738,116
Total revenues	30,002,344	30,002,344	32,271,828	2,269,484
Expenditures:				
Current:				
Legislative	282,381	289,234	271,946	(17,288)
Executive	3,170,222	3,773,278	2,915,162	(858,116)
Legal	203,450	203,450	192,706	(10,744)
Planning, zoning and development	1,817,860	1,817,860	1,652,993	(164,867)
Finance	1,774,864	1,774,864	1,848,851	73,987
Public safety	7,241,384	7,357,382	6,744,257	(613,125)
Parks and recreation	4,525,839	4,554,724	4,654,875	100,151
Balch library	379,519	379,519	314,490	(65,029)
Engineering and public works	9,668,777	9,707,604	9,431,676	(275,928)
Debt service:				
Principal	2,790,139	2,790,139	2,674,443	(115,696)
Interest and fiscal charges	1,766,704	1,766,714	1,784,228	17,514
Total expenditures	33,621,139	34,414,768	32,485,627	(1,929,141)
Revenues under expenditures	(3,618,795)	(4,412,424)	(213,799)	4,198,625
Other Financing Sources (Uses):				
Debt issuance	-	-	2,658,329	2,658,329
Payment to escrow agent	-	-	(2,633,814)	(2,633,814)
Transfers in	2,135,900	2,135,900	2,136,900	1,000
Transfers out	(392,925)	(392,925)	(580,000)	(187,075)
Other financing sources, net	1,742,975	1,742,975	1,581,415	(161,560)
Net change in fund balance	(1,875,820)	(2,669,449)	1,367,616	4,037,065
Fund balance, beginning	1,875,820	2,669,449	7,336,979	4,667,530
Fund balance, ending	\$ -	\$ -	\$ 8,704,595	\$ 8,704,595

See Notes to Financial Statements.

TOWN OF LEESBURG, VIRGINIA

Exhibit 8

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004

	Business-type Activities - Enterprise Funds		
	Airport	Water and Sewer	Totals
ASSETS			
Current Assets:			
Cash, cash equivalents, and temporary cash investments	\$ -	\$ 45,218,192	\$ 45,218,192
Accounts receivables, net	82,690	1,890,580	1,973,270
Accrued interest	-	133,591	133,591
Due from other governments	390,839	-	390,839
Total current assets	473,529	47,242,363	47,715,892
Noncurrent Assets:			
Restricted cash	-	5,354	5,354
Deferred charges	-	139,838	139,838
Capital assets:			
Land	9,120,074	1,586,356	10,706,430
Buildings and improvements	6,513,373	-	6,513,373
Water system	-	48,608,018	48,608,018
Sewer system	-	72,736,494	72,736,494
Equipment	1,245,130	2,065,252	3,310,382
Hangars	3,353,603	-	3,353,603
Runway	12,424,868	-	12,424,868
Software	-	13,000	13,000
Construction in progress	67,113	5,614,863	5,681,976
Less: accumulated depreciation	(4,676,035)	(25,819,665)	(30,495,700)
Total capital assets, net	28,048,126	104,804,318	132,852,444
Total noncurrent assets	28,048,126	104,949,510	132,997,636
Total assets	28,521,655	152,191,873	180,713,528
LIABILITIES			
Current Liabilities:			
Accounts payable	446,145	532,747	978,892
Accrued payroll	7,693	115,679	123,372
Accrued interest	104,165	758,410	862,575
Compensated absences	4,875	233,824	238,699
Retainage payable	144,573	120,857	265,430
Advances from other funds	697,736	-	697,736
Bonds payable	208,410	975,918	1,184,328
Customer deposits and contingent charges	21,022	975,427	996,449
Total current liabilities	1,634,619	3,712,862	5,347,481
Noncurrent Liabilities:			
Compensated absences	11,494	64,456	75,950
Bonds payable	4,574,617	32,609,457	37,184,074
Total noncurrent liabilities	4,586,111	32,673,913	37,260,024
Total liabilities	6,220,730	36,386,775	42,607,505
NET ASSETS			
Invested in capital assets, net of related debt	23,265,099	71,218,943	94,484,042
Unrestricted (deficit)	(964,174)	44,586,155	43,621,981
Total net assets	\$ 22,300,925	\$ 115,805,098	\$ 138,106,023

See Notes to Financial Statements.

TOWN OF LEESBURG, VIRGINIA

Exhibit 9

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2004

	Business-type Activities - Enterprise Funds		
	Airport	Water and Sewer	Totals
Operating Revenues:			
Charges for services	\$ 867,016	\$ 8,707,079	\$ 9,574,095
Other	-	67,730	67,730
Total operating revenues	867,016	8,774,809	9,641,825
Operating Expenses:			
Personal service	310,701	4,930,981	5,241,682
Contractual services	121,156	383,452	504,608
Depreciation	591,418	2,676,113	3,267,531
Other charges	117,298	2,395,057	2,512,355
Total operating expenses	1,140,573	10,385,603	11,526,176
Operating loss	(273,557)	(1,610,794)	(1,884,351)
Nonoperating Revenue (Expenses):			
Interest on investments	723	187,516	188,239
Interest and fiscal charges on bonds/notes	(228,476)	(1,776,894)	(2,005,370)
Total nonoperating expenses, net	(227,753)	(1,589,378)	(1,817,131)
Loss before grants, contributions and transfers	(501,310)	(3,200,172)	(3,701,482)
Capital grant revenue	1,736,596	-	1,736,596
Installation and connection charges	-	10,373,083	10,373,083
Developer donated assets	-	1,262,259	1,262,259
Transfers out	(185,000)	(1,758,000)	(1,943,000)
Change in net assets	1,050,286	6,677,170	7,727,456
Total net assets, beginning	21,250,639	109,127,928	130,378,567
Total net assets, ending	<u>\$ 22,300,925</u>	<u>\$ 115,805,098</u>	<u>\$ 138,106,023</u>

See Notes to Financial Statements.

TOWN OF LEESBURG, VIRGINIA

Exhibit 10

Page 1

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2004

	Business-type Activities - Enterprise Funds		
	Airport	Water and Sewer	Totals
Cash Flows From Operating Activities:			
Receipts from customers	\$ 853,197	\$ 8,191,140	\$ 9,044,337
Payments to suppliers for goods and services	(226,295)	(3,499,136)	(3,725,431)
Payments to employees for services	(297,670)	(4,986,182)	(5,283,852)
Other receipts	-	67,730	67,730
Net cash provided by (used in) operating activities	329,232	(226,448)	102,784
Cash Flows From Noncapital and Related Financing Activities:			
Transfers out	(185,000)	(1,758,000)	(1,943,000)
Net cash used in noncapital and related financing activities	(185,000)	(1,758,000)	(1,943,000)
Cash Flows From Capital and Related Financing Activities:			
Connection availability fees	-	10,373,083	10,373,083
Grant revenue	1,857,425	-	1,857,425
Acquisition and construction of capital assets	(2,430,106)	(3,936,875)	(6,366,981)
Interest	(224,181)	(1,621,118)	(1,845,299)
Proceeds from debt issuance	209,869	-	209,869
Payments to escrow agent	(207,053)	-	(207,053)
Principal paid on bonds	(203,075)	(879,899)	(1,082,974)
Net cash provided by (used in) capital and related financing activities	(997,121)	3,935,191	2,938,070
Cash Flows From Investing Activities:			
Interest on investments	723	147,631	148,354
Net cash provided by investing activities	723	147,631	148,354
Net increase (decrease) in cash and cash equivalents	(852,166)	2,098,374	1,246,208
Cash and Cash Equivalents			
Beginning	852,166	43,125,172	43,977,338
Ending	\$ -	\$ 45,223,546	\$ 45,223,546

TOWN OF LEESBURG, VIRGINIA

Exhibit 10
Page 2

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2004

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Airport</u>	<u>Water and Sewer</u>	<u>Totals</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:			
Operating loss	\$ (273,557)	\$ (1,610,794)	\$ (1,884,351)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation	591,418	2,676,113	3,267,531
Changes in assets and liabilities:			
Increase in accounts receivable	(15,666)	(482,079)	(497,745)
Increase (decrease) in:			
Accounts payable	12,159	(720,627)	(708,468)
Accrued liabilities	4,717	(80,856)	(76,139)
Compensated absences	8,314	25,655	33,969
Deposits and contingent charges	1,847	(33,860)	(32,013)
Net cash provided (used) by operating activities	\$ 329,232	\$ (226,448)	\$ 102,784
Supplemental Disclosure of Noncash Capital and Related Financing Activities:			
Developer donated capital improvements	\$ -	\$ 1,262,259	\$ 1,262,259
Cash payments for interest	\$ 224,181	\$ 1,621,118	\$ 1,845,299
Capital assets acquired through incurrence of accounts and retainage payable	\$ 267,041	\$ 558,671	\$ 825,712

See Notes to Financial Statements.

TOWN OF LEESBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

The financial statements of the Town of Leesburg, Virginia (the Town) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units promulgated by the Governmental Accounting Standards Board (GASB). The more significant of the Town's accounting policies are described below.

A. Reporting Entity

The Town of Leesburg, Virginia is located in the County of Loudoun, Virginia and was incorporated in 1758 under the provisions of the constitution and general statutes of the Commonwealth of Virginia.

The Town is an incorporated municipal government governed by an elected mayor and six-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the Town and any potential component units, entities for which the Town is considered to be financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board and either (a) the ability to impose its will on the component unit, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Based upon the above, all potential component units were evaluated for inclusion in the reporting entity and it was determined there are no component units requiring inclusion in the Town's reporting.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements or a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation - Fund Accounting

The accounts of the Town are organized on the basis of funds which are considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund balance/net assets, revenues and expenditures or expenses, as appropriate. The various funds of the primary government are included in the financial statements as follows:

1. Governmental Funds are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are paid; and the difference between governmental fund assets and liabilities, the fund equity, is referred to as "fund balance." The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following comprise the Town's major governmental funds:

General Fund – The General Fund is the general operating fund of the Town. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. Many of the more important activities of the Town, including operation of the Town's general service departments, street and highway maintenance, public safety, parks and recreation, and library are accounted for in this fund.

Buildings Capital Projects Fund – The Buildings Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other fixed assets, with the exception of those that have been segregated into separate capital project funds by management or are financed through proprietary funds. The Town has elected to treat the Buildings Capital Projects Fund as major, although it has not met the criteria requiring such treatment for fiscal year 2004.

Highways Capital Projects Fund – The Highways Capital Projects Fund is used to account for all resources used in the acquisition and construction of the Town's streets and other infrastructure. The Town has elected to treat the Highways Capital Projects Fund as major, although it has not met the criteria requiring such treatment for fiscal year 2004.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation - Fund Accounting (Continued)

Other governmental funds of the Town are considered nonmajor and are as follows:

Other Capital Projects Funds - The Other Capital Projects Funds are used to account for all resources used in the acquisition and construction of capital facilities and other fixed assets that management has chosen to report separately from the building and highway capital projects of the Town. The nonmajor capital project funds consist of the Parks and Recreation Fund and the Storm Drains Fund.

Special Revenue Funds – Special Revenue Funds are used to report resources that are legally restricted and may be used for purposes that support the designated reporting government's program. The Town's Special Revenue Funds consist of the Balch Library and Irwin W. Uran Funds.

2. Proprietary Fund Types are used to account for activities which are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses and transfers related to the government's business activities are accounted for through proprietary funds. The measurement focus is upon income determination, financial position, and cash flows. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Town has elected to apply all applicable FASB pronouncements, including those issued on or before November 30, 1989, except for those pronouncements which conflict with or contradict GASB pronouncements.

Enterprise Funds - Enterprise Funds are used to finance and account for the acquisition, operation and maintenance of the Town's facilities and services, which are supported primarily by user charges. The following comprise the Town's major enterprise funds:

Airport Fund – This fund is used to account for the operation and maintenance of the Town's airport. The Airport Fund also receives funding through State and Federal grants and General Fund transfers.

Water and Sewer Fund – This fund is used to account for the operation and maintenance of the Town's water system and sanitary sewer system.

TOWN OF LEESBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the *accrual* basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the *modified* accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 75 days of the end of the current fiscal period except for property taxes which are recognized as revenue if they have been collected within 45 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures related to compensated absences, and claims and judgments are recorded only when payment is due.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the Town; therefore, revenues are recognized based upon the expenditures recorded and the availability criteria. In the other, monies are virtually unrestricted as to purpose of expenditure, and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible to accrual criteria are met.

Licenses and permits, fines and forfeitures, charges for sales and services (other than utility) and miscellaneous revenues are *generally* recorded as revenue when received because they are generally not measurable until actually received. In the category of use of money and property, property rentals are recorded as revenue when received, but investment earnings are recorded as earned, since they are measurable and available.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise funds are charges to customers for commodities and services. Operating expenses for enterprise funds include the cost of commodities and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. Budgetary Data

Budgetary Information

Budgets are adopted and maintained on the modified accrual basis adjusted for encumbrances. Annual appropriated budgets are adopted for the General Fund. All annual appropriations lapse at fiscal year-end to the extent they have not been expended or lawfully encumbered. Project-length financial plans are adopted for all Capital Projects Funds. Budgets for enterprise funds serve as a spending guide for the Town and do not constitute legally binding limitations.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Each year all departments of the government submit requests for appropriation to the Town Manager so that a budget may be prepared. The budget is prepared by fund, department, activity, and expenditure and includes information on the past, current year estimates, and requested appropriations for the next fiscal year.

TOWN OF LEESBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

E. Budgetary Data (Continued)

Budgetary Information (Continued)

Before April 1, the proposed budget is presented to the Town's Council for review. The Town Council holds public hearings and may add to, subtract from, or change appropriations, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated as available by the Town's Manager or the revenue estimates must be changed by an affirmative vote of a majority of the Town Council.

Expenditures may not legally exceed budgeted appropriations at the department level. The Town Manager has authority to amend or transfer appropriations within the department level. During the year ended June 30, 2004, General Fund supplemental appropriations totalling \$793,629 were authorized by Town Council.

Budgeted (Non-GAAP)/GAAP Reconciliation

The following is a reconciliation of actual General Fund expenditures and fund balance presented on the budgetary basis in Exhibit 7 to the actual General Fund expenditures and fund balance presented in Exhibit 5 in accordance with accounting principles generally accepted in the United States of America:

	Total Expenditures and Transfers	Fund Balance
Budgetary basis as per Exhibit 7	\$ 35,699,441	\$ 8,704,595
Encumbrances at June 30, 2004	(1,714,783)	1,714,783
GAAP basis per Exhibit 5	\$ 33,984,658	\$ 10,419,378

F. Other Significant Accounting Policies

1. Cash and Cash Equivalents

The Town considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Cash of individual funds are combined to form a pool of cash and investments. The pool consists primarily of government obligations and a local government investment pool. The government securities are stated at fair value based on quoted market prices and the investment in the local government investment pool (a 2a7-like pool) is reported at the pool's share price. Interest earned as a result of pooling is distributed to the appropriate funds utilizing a formula based on month-end balances.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

F. Other Significant Accounting Policies (Continued)

2. Investments

Investments are stated at fair value based on quoted market prices.

3. Property Taxes

Real estate and personal property taxes are assessed annually by Loudoun County, Virginia, for all property of record as of January 1. The Town bills and collects its property taxes based on the assessed values provided by the County. Real estate taxes are levied annually on January 1 and are due in semi-annual installments on June 5 and December 5. Personal property taxes are levied annually on January 1 and are due October 5 with pro-ratio of personal property taxes throughout the year. Prorated personal property taxes levied after June 15 are due February 5.

Collections of real estate and personal property taxes between July 1 and August 15 of the subsequent fiscal year, classified as delinquent at June 30, are recorded as revenue for the fiscal year then ended. Liens attach to the property when the tax remains unpaid after July 1 of the following year. The billings are considered past due after the respective tax billing date at which time the applicable property is subject to a 10% penalty and interest is assessed 30 days therefrom.

4. Restricted Assets

Trustee Held Escrow Deposits – Certain proceeds of the Town's 1997 Utility System Revenue Refunding Bonds as well as certain resources set aside for their repayment, are combined and classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants and are to be held by a trustee. The Utility System Bond Fund Interest Account and Principal Account are used to report resources set aside for future debt service. The Utility System Debt Service Reserve Fund is used to the extent necessary to set aside reserve funds for interest and principal debt service payments.

Off-site Fees, Performance Bonds, Lease Escrow and Cash funds are restricted to set aside resources designated for fulfilling the obligation related to these deposit liabilities. As funds are utilized for these purposes, the restricted cash asset and deposit liability is reduced.

TOWN OF LEESBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

F. Other Significant Accounting Policies (Continued)

5. Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (\$50,000 or more for infrastructure) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the government is depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	15 – 50
Infrastructure	50
Water and sewer system	10 – 100
Hangars and runways	10 – 50
Vehicles	5 – 12
Equipment	5 – 25
Software	5 – 20

The Town's Balch Library contains reference material and library books that are not capitalized. These items are irreplaceable and only available for educational and research purposes to be completed at the library.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

F. Other Significant Accounting Policies (Continued)

6. Deferred Revenue

Deferred revenue in the governmental funds represents amounts due, which are measurable but not available.

7. Inter-fund Transactions

Transactions among Town funds that would be treated as revenues and expenditures or expenses if they involved organizations external to the Town government are accounted for as revenues and expenditures or expenses in the funds involved.

Transactions, which constitute reimbursements to a fund for expenditures initially made from it, which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund.

Transactions, which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended, are separately reported in the respective funds' operating statements.

Activity between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as "advances to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Noncurrent portions of long-term inter-fund loan receivables are reported as advances within the governmental funds, and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resource and, therefore, are not available for appropriation.

8. Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for unpaid accumulated sick leave. All vacation pay is accrued when incurred in government-wide and proprietary financial statements. For governmental fund types, the amount of accumulated unpaid vacation leave which is payable from available resources is recorded as a liability of the respective fund only if they have matured, for example, as a result of employee retirements and resignations.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

F. Other Significant Accounting Policies (Continued)

9. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

11. Net Assets

Net assets represent the difference between assets and liabilities. The caption net assets "invested in capital assets, net of related debt" consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Town first applied restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

F. Other Significant Accounting Policies (Continued)

12. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Deposits and Investments

Deposits. All cash of the Town of Leesburg is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the *Code of Virginia* or covered by federal depository insurance.

Investments. Statutes authorize the Town to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP).

The Director of Finance has investments in the LGIP. The LGIP is a professionally managed money market fund which invests in qualifying obligations and securities as permitted by Virginia statutes. Pursuant to Sec. 2.2-4605 *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings. The fair value of the position of the LGIP is the same as the value of the pool shares, i.e., the LGIP maintains a stable net asset value of \$1 per share.

TOWN OF LEESBURG, VIRGINIA**NOTES TO FINANCIAL STATEMENTS****Note 2. Deposits and Investments (Continued)**

The Town's investments are categorized below to give an indication of the level of risk assumed by the Town at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Town or its safekeeping agent in the Town's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker or dealer bank's trust department or safekeeping agent in the Town's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent but not in the Town's name.

At year-end, the Town's investments balances were as follows:

	Category			Fair
	1	2	3	Value
U. S. government securities	\$ -	\$ 28,157,182	\$ -	\$ 28,157,182
Commercial paper	-	7,379,055	-	7,379,055
	<u>\$ -</u>	<u>\$ 35,536,237</u>	<u>\$ -</u>	<u>35,536,237</u>
Investments not subject to risk categorization:				
State non-arbitrage program				3,211,834
Local Government Investment Pool				23,402,578
U. S. money market funds				776,447
Total investments				<u>62,927,096</u>
Total deposits				4,109,552
Total cash on hand and petty cash				2,200
Total cash, cash equivalents, and temporary cash investments				<u>\$ 67,038,848</u>
Reconciliation to cash, cash equivalents, and temporary cash investments of the reporting entity as reported on the statement of net assets:				
Cash, cash equivalents, and temporary cash investments				\$ 60,377,606
Restricted cash				6,950,777
Overdraft shown as accounts payable in the Airport Fund				(289,535)
Total				<u>\$ 67,038,848</u>

Note 3. Estimated Unbilled Revenue

Water and sewer fund revenues are estimated at year-end for unbilled services rendered. The amounts are determined by estimating services rendered based on past services provided. At June 30, 2004, estimated unbilled services included in accounts receivable and revenue amounted to approximately \$1,349,000.

TOWN OF LEESBURG, VIRGINIA**NOTES TO FINANCIAL STATEMENTS****Note 4. Receivables**

Receivables at June 30, 2004 for the government's individual major and nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Airport Fund	Water and Sewer Fund	Totals
Property taxes	\$ 5,140,355	\$ -	\$ -	\$ 5,140,355
Utility taxes	171,726	-	-	171,726
Local taxes	901,754	-	-	901,754
Accounts	70,961	85,690	1,975,580	2,132,231
Gross receivables	6,284,796	85,690	1,975,580	8,346,066
Less allowance for uncollectible accounts	(130,000)	(3,000)	(85,000)	(218,000)
Net receivables	\$ 6,154,796	\$ 82,690	\$ 1,890,580	\$ 8,128,066

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the General Fund were as follows:

	Unavailable	Unearned
Delinquent property taxes receivable	\$ 471,623	\$ -
Advance collection of 2004-2005 taxes	-	109,554
2004-2005 property taxes receivable	-	4,433,046
Other unearned revenues	-	76,643
	\$ 471,623	\$ 4,619,243

TOWN OF LEESBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 5. Due From Other Governments

At June 30, 2004, amounts due from other governments were as follows:

General Fund:

Commonwealth of Virginia:

Local sales taxes	\$ 657,448
Other taxes and excess fees	897
ABC profits	16,597
Wine tax	10,483
Car rental taxes	23,165
Highway maintenance funds	440,567
	<u>1,149,157</u>

Federal Government	<u>163,207</u>
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Northern Virginia Cigarette Tax Board	<u>183,132</u>
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Other governments	<u>22,465</u>
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Total General Fund	<u>1,517,961</u>
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Capital Projects Funds:

Parks and Recreation Fund:

Virginia Department of Transportation	<u>100,000</u>
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Highways Capital Project Fund:

Virginia Department of Transportation	<u>832,038</u>
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Enterprise Fund:

Airport Fund:

Commonwealth of Virginia	<u>390,839</u>
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Total	<u>\$ 2,840,838</u>
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TOWN OF LEESBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2004 is as follows:

	Beginning Balance	Increases	(Deletions)/ Reclassifications	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 25,070,943	\$ 3,036,252	\$ -	\$ 28,107,195
Construction in progress	636,176	2,858,869	(249,755)	3,245,290
Total capital assets, not being depreciated	25,707,119	5,895,121	(249,755)	31,352,485
Capital assets, being depreciated:				
Buildings and improvements	46,010,833	-	249,755	46,260,588
Equipment	2,743,820	151,854	-	2,895,674
Vehicles	2,625,438	140,159	(362,039)	2,403,558
Infrastructure	85,048,117	8,968,355	-	94,016,472
Total capital assets being depreciated	136,428,208	9,260,368	(112,284)	145,576,292
Less accumulated depreciation for:				
Buildings and improvements	(8,200,936)	(1,047,245)	-	(9,248,181)
Equipment	(1,273,327)	(313,870)	-	(1,587,197)
Vehicles	(1,386,994)	(240,742)	362,039	(1,265,697)
Infrastructure	(18,359,649)	(1,790,646)	-	(20,150,295)
Total accumulated depreciation	(29,220,906)	(3,392,503)	362,039	(32,251,370)
Total capital assets being depreciated, net	107,207,302	5,867,865	249,755	113,324,922
Governmental activities capital assets, net	\$ 132,914,421	\$ 11,762,986	\$ -	\$ 144,677,407

Depreciation expense was charged to functions/programs of the governmental activities as follows:

Governmental activities:	
Executive	\$ 321,207
Finance	19,107
Public safety	318,696
Parks and recreation	494,105
Balch Library	185,170
Engineering and public works	2,054,218
Total depreciation expense - governmental activities	\$ 3,392,503

TOWN OF LEESBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets (Continued)

	Beginning Balance	Increases	(Deletions)/ Reclassifications	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 10,675,419	\$ 31,011	\$ -	\$ 10,706,430
Construction in progress	5,163,725	6,649,219	(6,130,968)	5,681,976
Total capital assets, not being depreciated	15,839,144	6,680,230	(6,130,968)	16,388,406
Capital assets, being depreciated:				
Water system	47,253,723	672,434	681,861	48,608,018
Sewer system	71,218,102	589,825	928,567	72,736,494
Equipment	3,235,228	78,422	(3,268)	3,310,382
Hangars	3,184,882	-	168,721	3,353,603
Runway	12,424,868	-	-	12,424,868
Buildings and improvements	2,236,063	-	4,277,310	6,513,373
Software	13,000	-	-	13,000
Total capital assets being depreciated	139,565,866	1,340,681	6,053,191	146,959,738
Less accumulated depreciation for:				
Water system	(10,181,239)	(1,008,961)	-	11,190,200
Sewer system	(11,705,814)	(1,458,017)	-	13,163,831
Equipment	(1,674,594)	(289,043)	9,201	1,954,436
Hangars	(383,647)	(132,300)	-	515,947
Runway	(2,463,236)	(234,278)	-	2,697,514
Buildings and improvements	(816,640)	(144,532)	-	961,172
Software	(12,200)	(400)	-	12,600
Total accumulated depreciation	(27,237,370)	(3,267,531)	9,201	(30,495,700)
Total capital assets being depreciated, net	112,328,496	(1,926,850)	6,062,392	116,464,038
Business-type activities capital assets, net	\$ 128,167,640	\$ 4,753,380	\$ (68,576)	\$ 132,852,444

Depreciation expense was charged to functions/programs of the business-type activities as follows:

Business-type activities:	
Airport	\$ 591,418
Water and sewer	2,676,113
Total depreciation expense - business-type activities	\$ 3,267,531

TOWN OF LEESBURG, VIRGINIA**NOTES TO FINANCIAL STATEMENTS****Note 7. Interfund Assets/Liabilities**

Advance from/to other funds:

Receivable Fund	Payable Fund	Amount
General	Airport	\$ 697,736

The Airport Fund has not had sufficient cash flow from operations to meet all of its operating expenses and debt service costs. As a result, the General Fund has made operating cash advances to the Airport Fund to provide working capital and cover the annual cash deficits. No formal terms have been established for the repayment of the balance.

Note 8. Long-Term Debt**General Obligation Bonds**

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and for refunding of general obligation bonds. General obligation bonds have been issued for both general government and proprietary activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenues. General obligation bonds are direct obligations and pledge the full faith and credit of the Town.

Outstanding long-term debt at June 30, 2004, includes the following bond issues:

General Obligation Bonds:

\$2,868,198, 2004 General Obligation Refunding Bonds, due in annual installments of \$50,181 to \$705,573 through June 2010; interest at 2.36%	\$ 2,836,604
\$1,350,000, 2003 General Obligation Bond, due in semi-annual installments of \$60,162 beginning July 2004 through July 2018; including interest at 3.60%	1,350,000
\$7,930,000, 2003 General Obligation Refunding Bonds, due in annual installments of \$345,000 to \$1,635,000 through August 2010; interest at 4.50%	7,840,000
\$4,200,000, 2001 General Obligation Bonds due in semi-annual installments of \$154,578 through January 2022; including interest at 4.02%	3,933,207
\$14,545,000, 2000 General Obligation Public Improvement Bonds due in annual installments of \$195,000 to \$1,810,000 through January 2021; interest at 4.75% to 6%	14,190,000
\$9,480,000, 1999 General Obligation Public Improvement Bonds due in annual installments of \$390,000 to \$700,000 through June 2019; interest at 3.95% to 4.80%	7,875,000

TOWN OF LEESBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Debt (Continued)

General Obligation Bonds: (Continued)

\$8,035,000, 1998 General Obligation Refunding Bonds due in annual installments of \$55,000 to \$965,000 through July 2016; interest at 4.00% to 4.50% \$ 6,860,000

\$670,000, 1998 General Obligation Bond due in monthly installments of \$6,928 through February 2008; including interest at 4.45% 280,762

\$12,300,000, 1996 General Obligation Public Improvement Bonds, \$5,065,000 refunded December 1998 and \$2,625,000 refunded March 2004, remaining balance due in annual installments of \$555,000 to \$580,000 through June 2006; interest at 4.90% to 5.00% 1,135,000

Revenue Bonds:

The Town also issues bonds where the Town pledges income derived from the acquired or constructed assets to pay debt service.

\$11,000,000, VRA 1999 Utility System Revenue Bonds; due in semi-annual installments of \$391,534 through September 2020, including interest at 3.50% 9,752,315

\$23,265,000, 1997 Utility System Revenue Refunding Bonds due in annual installments beginning July 2004 of \$70,000 to \$1,900,000 through July 2022; interest at 4.50% to 5.125%	23,265,000
	<u>79,317,888</u>
Less unamortized premium, discount and deferred loss, net	2,486,643
Total bonded debt	<u>\$ 76,831,245</u>

The Revenue Bonds constitute special obligations of the Town solely secured by a lien on and pledge of the net revenues of the water and sewer system. The revenue of the water and sewer system and the various special funds established by the bond covenants collateralizes the bonds. The covenants provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Any remaining revenues may then be retained in a surplus account. The covenants also contain certain provisions, which require the Town to maintain revenues, as defined in the covenants of at least 1.25 times the annual debt service requirements. For fiscal year 2004, all revenue bond covenants were met.

TOWN OF LEESBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Debt (Continued)

The allocation of debt to business-type and governmental activities net of premium, discount, and deferred loss is as follows:

Description	Business-Type Activities	Governmental Activities	Totals
Bond long-term debt:			
1996 General obligation	\$ 83,047	\$ 1,051,953	\$ 1,135,000
1997 Utility revenue refunding	20,999,177	-	20,999,177
1998 General obligation	280,762	-	280,762
1998 General obligation refunding	1,235,663	5,624,337	6,860,000
1999 Public improvement	-	7,875,000	7,875,000
1999 VRA utility revenue	9,752,315	-	9,752,315
2000 Public improvement	3,532,335	10,657,665	14,190,000
2001 General obligation bond	-	3,933,207	3,933,207
2003 General obligation refunding	2,292,525	5,531,361	7,823,886
2003 General obligation bond	-	1,350,000	1,350,000
2004 General obligation refunding	192,578	2,439,320	2,631,898
Total bonds payable	38,368,402	38,462,843	76,831,245
Other long-term debt:			
Note payable	-	40,000	40,000
Capital leases	-	179,833	179,833
Accrued vacation	314,649	905,181	1,219,830
Totals	\$ 38,683,051	\$ 39,587,857	\$ 78,270,908

The following is a summary of long-term liability activity of the primary government for the year ended June 30, 2004:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds payable	\$ 39,570,118	\$ 3,807,442	\$ 4,914,717	\$ 38,462,843	\$ 2,653,461
Note payable	40,000	-	-	40,000	40,000
Capital lease	359,681	-	179,848	179,833	179,833
Accrued vacation	809,326	791,187	695,332	905,181	695,332
Governmental activities					
long-term activities	\$ 40,779,125	\$ 4,598,629	\$ 5,789,897	\$ 39,587,857	\$ 3,568,626

Net additions to bonds payable consisted of \$4,008,329 of proceeds and \$200,887 of deferred loss.

TOWN OF LEESBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Debt (Continued)

Annual requirements to amortize long-term debt and related interest payments are as follows:

Year Ending June 30,	Bonded Obligations		Capital Leases		Note Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 2,653,461	\$ 1,412,894	\$ 179,833	\$ 2,581	\$ 40,000	\$ 4,614
2006	2,675,278	1,350,385	-	-	-	-
2007	2,674,395	1,282,814	-	-	-	-
2008	2,599,444	1,232,099	-	-	-	-
2009	2,622,922	1,164,538	-	-	-	-
2010-2014	11,439,623	4,599,793	-	-	-	-
2015-2019	10,459,350	2,204,809	-	-	-	-
2020-2022	3,539,616	266,277	-	-	-	-
Less unamortized amounts	(201,246)	-	-	-	-	-
Totals	\$ 38,462,843	\$ 13,513,609	\$ 179,833	\$ 2,581	\$ 40,000	\$ 4,614

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Business-type Activities:					
Bonds payable	\$ 39,325,428	\$ 194,009	\$ 1,151,035	\$ 38,368,402	\$ 1,184,328
Compensated absences	280,680	272,669	238,700	314,649	238,699
Business-type activities long-term liabilities	\$ 39,606,108	\$ 466,678	\$ 1,389,735	\$ 38,683,051	\$ 1,423,027

Net additions to bonds payable consisted of \$209,869 of proceeds and \$15,860 of deferred loss.

Annual requirements to amortize long-term debt are as follows:

Year Ending June 30,	Bonded Obligations	
	Principal	Interest
2005	\$ 1,184,328	\$ 1,847,633
2006	1,986,525	1,799,970
2007	2,027,500	1,713,089
2008	1,999,084	1,629,943
2009	1,951,162	1,546,725
2010-2014	10,404,346	6,434,513
2015-2019	12,020,737	3,915,378
2020-2023	9,080,117	1,034,817
Less unamortized amounts	(2,285,397)	-
	\$ 38,368,402	\$ 19,922,068

The legal debt margin mandated by the Commonwealth of Virginia is \$366,888,009, which is computed, based upon 10% of the assessed value on real estate subject to taxation less applicable bonded debt.

TOWN OF LEESBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term Debt (Continued)

Capital Lease Payable. The Town is obligated under a lease accounted for as a capital lease. Assets purchased through capital lease programs are subject to security agreements. The carrying value of assets under the outstanding capital lease totalled approximately \$323,700. The interest rate on the lease approximates 2.87%.

Note Payable. The Town is obligated under a note payable dated March 1999 to the Virginia Outdoor Recreation and Revolving Loan Program. The terms of the note are \$200,000 at 3.75% with annual principal payments of \$40,000 through July 2004.

During fiscal year 2004, the Town issued \$2,868,198 of general obligation refunding bonds to defease \$2,625,000 of the 1996 Series general obligation bond. The proceeds of the issuance have been placed in an irrevocable trust for the purpose of generating resources for all future debt service of the \$2,625,000. As a result, the liability associated with the defeased debt has been removed from the governmental activities column of the statement of activities and the balance sheet of the Airport Fund. The reacquisition price exceeded the carrying amount of the old debt by approximately \$243,000. This amount is being netted against the new debt and amortized over the life of the new debt. The refunding was undertaken to reduce total debt service payments over the next seven years by approximately \$146,000 and resulted in an estimated economic gain of \$136,000.

In prior years, the Town defeased certain other general obligation debt by placing the proceeds of new bonds in an irrevocable trusts. At June 30, 2004, approximately \$7,690,000 of bonds that were previously accounted for by the Town are considered defeased.

Note 9. Interfund Transfers

	Transfer to Fund			Total Transferred Out
	General Fund	Highways Capital Projects	Storm Drains Capital Projects	
Transfer from fund:				
Governmental activities:				
General Fund	\$ -	\$ 540,000	\$ 40,000	\$ 580,000
Irwin W. Uran	193,900	-	-	193,900
Business-type activities:				
Airport	185,000	-	-	185,000
Water and Sewer	1,758,000	-	-	1,758,000
Total transferred in	\$ 2,136,900	\$ 540,000	\$ 40,000	\$ 2,716,900

The transfer from the General Fund to the Highways Capital Projects Fund is comprised of \$120,000 for repairs to a bridge on South King Street and \$420,000 for a supplemental appropriation for the Evergreen Mills Road and Tolbert Lane improvements.

The transfer from the Irwin W. Uran Fund to the General Fund is to reimburse the General Fund for qualifying expenditures.

The transfer from the Airport Fund to the General Fund is for general administrative service performed by the general government.

TOWN OF LEESBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 9. Interfund Transfers (Continued)

The transfer from the Water and Sewer Fund to the General Fund is to reimburse the General Fund for general administrative services performed by the general government for water and sewer department operations.

The transfer from the General Fund to the Storm Drains Capital Projects Fund is for the Town's funding of improvements to Day Mill Road.

Note 10. Commitments and Contingent Liabilities

Subsequent to June 30, 2004, the Town entered into two commitments for construction projects:

Project	
Evergreen Mills/Tolbert Lane improvements	\$ 486,000
Water pollution control facility expansion	2,843,000

Note 11. Irwin W. Uran Fund

Irwin W. Uran has donated funds to the Town for designated uses which are accounted for in a special revenue fund. The Town continues to expend funds in full compliance with the donor-designated uses.

Note 12. Balch Library Fund

The County of Loudoun, Virginia, made a deed of gift and dedication in 1994 to the Town of Leesburg, Virginia consisting of special revenue funds held and the real property referred to as Thomas Balch Library. The Town has complied with all restrictive covenants on the use of the funds and structures.

Note 13. Surety Bonds

The Town has the following surety bonds:

Fidelity and Deposit Company – Surety, Norman D. Butts – Director of Finance	\$ 500,000
The Virginia Municipal Liability Pool - Surety Employee Dishonesty – Blanket Bond	\$ 100,000

TOWN OF LEESBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 14. Post-Employment Health Care Benefits

In addition to providing pension benefits, the Town provides for certain health care insurance benefits for retired public employees. Substantially all of the Town's public employees may become eligible for those benefits if they reach normal retirement age while working for the Town. The cost of retiree health care insurance benefits is recognized as an expenditure as premiums are paid. For 2004, those costs totalled \$58,063 covering 19 employees.

Note 15. Defined Benefit Pension Plan

Name of Plan: Virginia Retirement System (VRS)

Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service (age 60 for participating local law enforcement officers, firefighters and sheriffs) or at age 50 with at least 30 years of service if elected by the employee (age 50 with 25 years of service for participating local law enforcement officers, firefighters and sheriffs) payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers, firefighters and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/pdf/2003annurept.pdf> or obtained by writing to the System at P. O. Box 2500, Richmond, Virginia, 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The 5% member contribution has been assumed by the Town. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The Town of Leesburg's contribution rate for the fiscal year ended June 30, 2004 was 11.00% of annual covered payroll.

TOWN OF LEESBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 15. Defined Benefit Pension Plan (Continued)

Annual Pension Cost (APC)

For fiscal year 2004, the Town of Leesburg's annual pension cost of \$1,627,517 was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2001 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases ranging from 4% to 7% per year, and (c) 3% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 30 years or less.

Three-year trend information for the Town is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2002	\$ 1,338,772	100%	\$ -
June 30, 2003	1,549,227	100%	-
June 30, 2004	1,627,517	100%	-

Note 16. Risk Management

The Town is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To reduce insurance costs and the need for self-insurance, the Town has joined with other municipalities in the Commonwealth of Virginia in several public entity risk pools that operate as common risk management and insurance programs for member municipalities. Settled claims from these risks did not exceed coverage in the three most recent fiscal years.

The Town also has coverage with the Virginia Municipal Group Self Insurance Association (Association) for workers' compensation. Each Association member jointly and severally agrees to assume, pay and discharge any liability. The Town pays Virginia Municipal Group contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Association and claims and awards are to be paid. In the case for both pools, if the event of a loss deficit and depletion of all available excess insurance, the pools may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The Town participates in VaCorp, which is a public entity risk pool that provides commercial general liability, property, automobile, and other types of insurance coverage to Virginia localities.

TOWN OF LEESBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 17. Sewer Line Reimbursement Commitment

In 1977, the School Board of Loudoun County, Virginia agreed to advance the Town \$166,407 for development of a Town sewer line. The Town agreed to reimburse the School Board the advance and 6% per annum as the Town collects availability fees from permits issued for connection to the sewer line. In no event does the Town have a liability beyond collected availability fees with the agreement for reimbursement terminating 2007. Payments made to the County, including principal and interest, have amounted to \$193,373.

Note 18. Operating Rental Income Lease

The Town leases various owned airport properties under non-cancelable operating leases. The leases provide for annual rental increases and pass-through of certain maintenance costs. The lease terms expire April 2018 and January 2026.

The following schedule represents minimum rental income under the above leases as of June 30, 2004:

Year Ending June 30,	Rental Income
2005	\$ 187,002
2006	169,297
2007	169,831
2008	170,380
2009	170,943
2010-2014	863,729
2015-2019	705,466
2020-2024	148,917
2025-2027	48,973
Total	<u>\$ 2,634,538</u>

Effective July 2004, the Town entered into four additional leases on various airport properties, all expiring June 2009. Leases will approximate \$163,300 in revenue per year with annual rental increases and pass-through of certain maintenance costs.

TOWN OF LEESBURG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

Note 19. Pending GASB Statements

At June 30, 2004, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by the Authority. The statements which might impact the Authority are as follows:

GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, an amendment of GASB Statement No. 3, requires certain disclosures of rate risk and modifies custodial credit risk disclosures of Statement No. 3. The provisions of Statement 40 will be effective for periods beginning after June 15, 2004.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* requires evaluation and reporting the effects of capital asset impairments and insurance recoveries when they occur. The provisions of Statement No. 42 will be effective for fiscal years beginning after December 15, 2004.

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* provides uniform financial reporting standards for OPEB (other postemployment benefit) plans. The provisions of Statement 43 will be effective for periods beginning after December 15, 2006.

GASB Statement No. 44, *Economic Condition Reporting: the Statistical Section*, an amendment of NCGA Statement 1, clarifies and establishes objectives of the statistical section and its five categories of information: financial trends, revenue capacity, debt capacity, demographic and economic, and operating. The provisions of Statement 44 will be effective for periods beginning after June 15, 2005.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and required supplemental information. Statement No. 45 will be effective for periods beginning after December 15, 2007.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF LEESBURG, VIRGINIA

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (Asset)	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability (Asset) as a Percentage of Covered Payroll
June 30, 2003	\$ 22,353,023	\$ 26,304,116	\$ 3,951,093	84.98%	\$ 14,381,477	27.47%
June 30, 2002	20,544,468	22,396,641	1,852,173	91.73%	12,561,755	14.74%
June 30, 2001	18,737,873	18,294,176	(443,697)	102.43%	10,649,142	(4.17)%

SUPPLEMENTARY STATEMENTS

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Balch Library Fund – This fund is used to account for the donations and legally restricted revenues that are to be used to maintain the Balch Library.

Irwin W. Uran Fund – This fund is used to account for the private donations and interest revenue designated by the donor for specific purposes.

Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

Storm Drains Capital Projects Fund – This fund is used to account for the construction and expansion of the Town's storm drainage system.

Parks and Recreation Capital Projects Fund – This fund is used to account for the construction and improvements of the Town's parks and recreation facilities.

TOWN OF LEESBURG, VIRGINIA

Exhibit A-1

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2004**

	Special Revenue		Capital Projects		Total Nonmajor Governmental Funds
	Balch Library	Irwin W. Uran	Storm Drains	Parks and Recreation	
ASSETS					
Cash, cash equivalents, and temporary cash investments	\$ 58,146	\$ 1,372,558	\$ 2,760,044	\$ 361,256	\$ 4,552,004
Due from other governments	-	-	-	100,000	100,000
Total assets	\$ 58,146	\$ 1,372,558	\$ 2,760,044	\$ 461,256	\$ 4,652,004
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ 21,733	\$ 92,046	\$ 113,779
Retainage payable	-	-	-	16,460	16,460
Total liabilities	-	-	21,733	108,506	130,239
Fund balances:					
Unreserved, designated for future expenditures	58,146	1,372,558	2,738,311	352,750	4,521,765
Total fund balances	58,146	1,372,558	2,738,311	352,750	4,521,765
Total liabilities and fund balances	\$ 58,146	\$ 1,372,558	\$ 2,760,044	\$ 461,256	\$ 4,652,004

TOWN OF LEESBURG, VIRGINIA

Exhibit A-2

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2004**

	Special Revenue		Capital Projects		Total Nonmajor Governmental Funds
	Balch Library	Irwin W. Uran	Storm Drains	Parks and Recreation	
Revenues:					
Revenue from local sources:					
Use of money and property	\$ 7,591	\$ 16,088	\$ 14,543	\$ 7,229	\$ 45,451
Miscellaneous	-	-	-	889	889
Intergovernmental	-	-	-	100,000	100,000
Total revenue	7,591	16,088	14,543	108,118	146,340
Expenditures:					
Contributions	-	300,000	-	-	300,000
Capital outlays	-	-	163,115	423,051	586,166
Total expenditures	-	300,000	163,115	423,051	886,166
Revenues over (under) expenditures	7,591	(283,912)	(148,572)	(314,933)	(739,826)
Other financing sources (uses):					
Debt issuance	-	-	840,000	75,000	915,000
Transfers in	-	-	40,000	-	40,000
Transfers out	-	(193,900)	-	-	(193,900)
Total other financing sources (uses), net	-	(193,900)	880,000	75,000	761,100
Net change in fund balances	7,591	(477,812)	731,428	(239,933)	21,274
Fund balances, beginning	50,555	1,850,370	2,006,883	592,683	4,500,491
Fund balances, ending	\$ 58,146	\$ 1,372,558	\$ 2,738,311	\$ 352,750	\$ 4,521,765



SUPPLEMENTAL SCHEDULES

TOWN OF LEESBURG, VIRGINIA**Exhibit B-1****GENERAL FUND
COMPARATIVE BALANCE SHEETS
June 30, 2004
(With Comparative Totals for 2003)**

	2004	2003
ASSETS		
Cash, cash equivalents, and temporary cash investments	\$ 8,267,454	\$ 5,468,027
Receivables, net:		
Property taxes, including penalties	5,010,355	4,508,015
Utility taxes	171,726	230,105
Local taxes	901,754	684,499
Accounts	70,961	32,030
Accrued interest	23,108	27,433
Advances to other funds	697,736	697,736
Due from other governments	1,517,961	1,332,622
Restricted cash	6,906,005	5,870,736
Total assets	\$ 23,567,060	\$ 18,851,203
LIABILITIES		
Accounts payable	\$ 642,738	\$ 446,785
Accrued payroll	442,635	350,682
Other accrued liabilities	66,104	68,142
Accrued insurance claims	-	331,465
Customer deposits and contingent charges	6,905,339	5,875,707
Deferred revenues	5,090,866	4,441,443
Total liabilities	13,147,682	11,514,224
FUND BALANCE		
Reserved for:		
Encumbrances	1,714,783	1,038,541
Advances to other funds	697,736	697,736
Law enforcement expenditures	42,535	33,463
Unreserved:		
Undesignated	7,964,324	5,567,239
Total fund balance	10,419,378	7,336,979
Total liabilities and fund balance	\$ 23,567,060	\$ 18,851,203

TOWN OF LEESBURG, VIRGINIA

Exhibit B-2

Page 1

GENERAL FUND

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES- BUDGET AND ACTUAL

Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Over
				(Under)
Revenue from local sources:				
General property taxes:				
Real estate taxes:				
Current	\$ 8,180,000	\$ 8,180,000	\$ 8,429,352	\$ 249,352
Delinquent	100,000	100,000	87,959	(12,041)
Personal property taxes:				
Current	2,720,000	2,720,000	1,060,638	(1,659,362)
Delinquent	20,000	20,000	16,280	(3,720)
Public service corporation taxes	244,000	244,000	267,046	23,046
Penalties and interest	85,000	85,000	75,225	(9,775)
Total general property taxes	11,349,000	11,349,000	9,936,500	(1,412,500)
Other local taxes:				
Utility	1,955,000	1,955,000	1,998,824	43,824
Daily rental	25,000	25,000	21,394	(3,606)
Cable TV franchise	260,000	260,000	321,855	61,855
Meals	2,318,000	2,318,000	2,473,345	155,345
Bank franchise	350,000	350,000	357,555	7,555
Telecommunication	180,000	180,000	184,714	4,714
Cigarette	1,142,000	1,142,000	1,065,875	(76,125)
Sales and use	3,100,000	3,100,000	3,530,722	430,722
Business and occupational licenses	2,160,000	2,160,000	2,087,754	(72,246)
Motor vehicle licenses	700,000	700,000	696,918	(3,082)
Transient occupancy	470,000	470,000	556,151	86,151
Total other local taxes	12,660,000	12,660,000	13,295,107	635,107
Permits, fees and licenses:				
Zoning, subdivision and development fees	488,000	488,000	796,609	308,609
Permits	10,000	10,000	8,165	(1,835)
Total permits, fees and licenses	498,000	498,000	804,774	306,774
Fines and forfeitures:				
Police forfeiture	5,000	5,000	11,404	6,404
Traffic fines	200,000	200,000	255,961	55,961
Parking fines	20,000	20,000	28,576	8,576
Total fines and forfeitures	225,000	225,000	295,941	70,941
Use of money and property:				
Interest	150,000	150,000	109,038	(40,962)
Rental - general property	4,000	4,000	-	(4,000)
Parking meters	30,000	30,000	35,165	5,165
Sales of surplus property	20,000	20,000	29,093	9,093
Parking facility revenues	115,000	115,000	96,782	(18,218)
Total revenues from use of money and property	319,000	319,000	270,078	(48,922)

TOWN OF LEESBURG, VIRGINIA

Exhibit B-2

Page 2

GENERAL FUND

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES- BUDGET AND ACTUAL

Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final	Amounts	
Revenue from local sources:				
Charges for services:				
Publications	\$ 6,000	\$ 6,000	\$ 6,736	\$ 736
Fingerprinting	7,000	7,000	1,135	(5,865)
Parks and recreation user fees	2,100,900	2,100,900	2,770,756	669,856
Total charges for services	2,113,900	2,113,900	2,778,627	664,727
Miscellaneous	257,800	257,800	573,041	315,241
Total revenues from local sources	27,422,700	27,422,700	27,954,068	531,368
Intergovernmental:				
Revenue from the Commonwealth:				
Non-categorical aid:				
ABC profits	16,598	16,598	48,860	32,262
Wine tax distribution	17,398	17,398	36,257	18,859
Motor vehicles tax	500	500	330	(170)
Rental car tax	108,500	108,500	98,317	(10,183)
Mobile home titling taxes	1,000	1,000	1,430	430
Personal property tax relief	-	-	1,371,577	1,371,577
Other grants	41,820	41,820	12,680	(29,140)
Total non-categorical aid	185,816	185,816	1,569,451	1,383,635
Categorical aid:				
State fire programs funds	38,000	38,000	-	(38,000)
Law enforcement assistance	680,585	680,585	680,288	(297)
Highway maintenance	1,564,538	1,564,538	1,762,268	197,730
Total categorical aid	2,283,123	2,283,123	2,442,556	159,433
Total revenue from the Commonwealth	2,468,939	2,468,939	4,012,007	1,543,068
Revenue from the federal government:				
Categorical aid:				
School resource officer	41,705	41,705	33,713	(7,992)
State and community highway	-	-	1,500	1,500
Disaster planning and operations	-	-	59,908	59,908
9/11 emergency services	-	-	117,780	117,780
Byrne formula grant	-	-	7,725	7,725
Gang officer grant	69,000	69,000	55,186	(13,814)
Local law enforcement block grant	-	-	12,941	12,941
Historic preservation	-	-	17,000	17,000
Total intergovernmental revenue from the federal government	110,705	110,705	305,753	195,048
Total intergovernmental	2,579,644	2,579,644	4,317,760	1,738,116
Total revenues	30,002,344	30,002,344	32,271,828	2,269,484

TOWN OF LEESBURG, VIRGINIA

Exhibit B-2

Page 3

GENERAL FUND

SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES- BUDGET AND ACTUAL

Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Final Budget Over (Under)
	Original	Final		
Other financing sources:				
Debt issuance	\$ -	\$ -	\$ 2,658,329	\$ 2,658,329
Transfers in	2,135,900	2,135,900	2,136,900	1,000
Total other financing sources	2,135,900	2,135,900	4,795,229	2,659,329
Total General Fund revenue and other financing sources	\$ 32,138,244	\$ 32,138,244	\$ 37,067,057	\$ 4,928,813

TOWN OF LEESBURG, VIRGINIA

Exhibit B-3

Page 1

GENERAL FUND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES
COMPARED WITH FINAL BUDGET
Year Ended June 30, 2004

	Budgeted Amounts		Encumbrances	Expenditures	Total Encumbrances and Expenditures	Variance with Final Budget Over (Under)
	Original	Final				
Legislative:						
Town council:						
Personal service	\$ 61,900	\$ 61,900	\$ -	\$ 55,763	\$ 55,763	\$ (6,137)
Contractual service	15,000	20,853	2,000	21,416	23,416	2,563
Materials and supplies	37,150	38,150	-	36,417	36,417	(1,733)
Contributions	27,500	27,500	-	27,500	27,500	-
Total town council	141,550	148,403	2,000	141,096	143,096	(5,307)
Clerk of council:						
Personal service	120,416	120,416	-	117,454	117,454	(2,962)
Contractual service	14,000	14,000	2,614	5,014	7,628	(6,372)
Materials and supplies	6,415	6,415	-	3,768	3,768	(2,647)
Total clerk of council	140,831	140,831	2,614	126,236	128,850	(11,981)
Total legislative	282,381	289,234	4,614	267,332	271,946	(17,288)
Executive:						
Town manager:						
Personal service	595,250	595,250	-	540,305	540,305	(54,945)
Contractual service	139,445	139,445	12,842	73,494	86,336	(53,109)
Materials and supplies	56,500	56,500	-	35,782	35,782	(20,718)
Capital outlays	-	-	10,000	-	10,000	10,000
Total town manager	791,195	791,195	22,842	649,581	672,423	(118,772)
Personnel administration:						
Personal service	407,990	407,990	-	407,778	407,778	(212)
Contractual service	167,761	513,281	5,552	56,918	62,470	(450,811)
Materials and supplies	32,781	67,261	-	21,787	21,787	(45,474)
Total personnel administration	608,532	988,532	5,552	486,483	492,035	(496,497)
Information technology:						
Personal service	431,530	431,530	-	386,980	386,980	(44,550)
Contractual service	386,988	600,154	365,157	165,792	530,949	(69,205)
Materials and supplies	59,300	72,300	11,205	50,362	61,567	(10,733)
Capital outlays	84,035	80,925	-	53,946	53,946	(26,979)
Total information technology	961,853	1,184,909	376,362	657,080	1,033,442	(151,467)
Tree commission:						
Personal service	4,520	4,520	-	3,983	3,983	(537)
Materials and supplies	10,000	10,000	-	6,771	6,771	(3,229)
Total tree commission	14,520	14,520	-	10,754	10,754	(3,766)
Cable TV commission:						
Personal service	4,520	4,520	-	3,176	3,176	(1,344)
Contractual service	7,000	7,000	-	4,111	4,111	(2,889)
Materials and supplies	3,250	3,250	-	2,677	2,677	(573)
Total cable TV commission	14,770	14,770	-	9,964	9,964	(4,806)
Economic development:						
Personal service	211,350	211,350	-	158,411	158,411	(52,939)
Contractual service	310,387	310,387	32,756	288,699	321,455	11,068
Materials and supplies	32,880	32,880	-	21,615	21,615	(11,265)
Capital outlays	27,015	27,015	-	4,280	4,280	(22,735)
Contributions	181,200	181,200	-	181,231	181,231	31
Total economic development	762,832	762,832	32,756	654,236	686,992	(75,840)

TOWN OF LEESBURG, VIRGINIA

Exhibit B-3

Page 2

GENERAL FUND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES
COMPARED WITH FINAL BUDGET
Year Ended June 30, 2004

	Budgeted Amounts		Encumbrances	Expenditures	Total	Variance with
	Original	Final			Encumbrances and Expenditures	Final Budget Over (Under)
Executive (Continued):						
Environmental advisory committee:						
Personal service	\$ 4,520	\$ 4,520	\$ -	\$ 2,907	\$ 2,907	\$ (1,613)
Contractual service	6,000	6,000	-	2,577	2,577	(3,423)
Materials and supplies	6,000	6,000	-	4,068	4,068	(1,932)
Total environmental advisory committee	16,520	16,520	-	9,552	9,552	(6,968)
Total executive	3,170,222	3,773,278	437,512	2,477,650	2,915,162	(858,116)
Legal:						
Town attorney:						
Personal service	168,500	168,500	-	159,794	159,794	(8,706)
Contractual service	30,000	30,000	-	27,100	27,100	(2,900)
Materials and supplies	4,950	4,950	-	5,812	5,812	862
Total legal	203,450	203,450	-	192,706	192,706	(10,744)
Planning, zoning, and development						
Personal service	1,646,480	1,646,480	-	1,502,951	1,502,951	(143,529)
Contractual service	96,515	98,515	30,564	61,302	91,866	(6,649)
Materials and supplies	54,665	50,665	930	35,203	36,133	(14,532)
Capital outlays	20,200	22,200	4,912	17,131	22,043	(157)
Total planning, zoning, and development	1,817,860	1,817,860	36,406	1,616,587	1,652,993	(164,867)
Finance:						
Administration:						
Personal service	917,160	917,160	-	878,118	878,118	(39,042)
Contractual service	361,009	361,009	50,243	434,769	485,012	124,003
Materials and supplies	166,250	163,250	-	187,187	187,187	23,937
Capital outlays	11,760	14,760	1,505	13,065	14,570	(190)
Total administration	1,456,179	1,456,179	51,748	1,513,139	1,564,887	108,708
Budget:						
Personal service	161,295	161,295	-	151,706	151,706	(9,589)
Contractual service	5,250	5,250	700	2,793	3,493	(1,757)
Materials and supplies	2,100	2,100	-	1,301	1,301	(799)
Total budget	168,645	168,645	700	155,800	156,500	(12,145)
Purchasing:						
Personal service	135,175	135,175	-	118,114	118,114	(17,061)
Contractual service	3,030	3,030	-	4,013	4,013	983
Materials and supplies	8,460	8,460	-	5,337	5,337	(3,123)
Capital outlays	3,375	3,375	-	-	-	(3,375)
Total purchasing	150,040	150,040	-	127,464	127,464	(22,576)
Total finance	1,774,864	1,774,864	52,448	1,796,403	1,848,851	73,987
Public safety:						
Personal service	5,809,600	5,809,600	-	5,413,906	5,413,906	(395,694)
Contractual service	348,293	348,293	32,244	218,511	250,755	(97,538)
Materials and supplies	453,043	452,043	21,967	390,510	412,477	(39,566)
Capital outlays	317,448	434,446	131,618	222,501	354,119	(80,327)
Contributions - local fire and rescue	313,000	313,000	-	313,000	313,000	-
Total public safety	7,241,384	7,357,382	185,829	6,558,428	6,744,257	(613,125)

TOWN OF LEESBURG, VIRGINIA

Exhibit B-3

Page 3

GENERAL FUND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES
COMPARED WITH FINAL BUDGET
Year Ended June 30, 2004

	Budgeted Amounts		Encumbrances	Expenditures	Total Encumbrances and Expenditures	Variance with Final Budget Over (Under)
	Original	Final				
Parks and recreation:						
Personal service	\$ 3,151,045	\$ 3,151,045	\$ -	\$ 3,237,212	\$ 3,237,212	\$ 86,167
Contractual service	634,802	663,960	156,880	451,932	608,812	(55,148)
Materials and supplies	608,659	600,363	14,488	644,925	659,413	59,050
Rent	100,685	100,685	-	106,156	106,156	5,471
Capital outlays	30,648	38,671	12,487	30,795	43,282	4,611
Total parks and recreation	4,525,839	4,554,724	183,855	4,471,020	4,654,875	100,151
Balch library:						
Personal service	280,180	280,180	-	233,547	233,547	(46,633)
Contractual service	37,469	38,769	141	32,652	32,793	(5,976)
Materials and supplies	54,870	53,570	-	41,150	41,150	(12,420)
Contributions	7,000	7,000	-	7,000	7,000	-
Total Balch library	379,519	379,519	141	314,349	314,490	(65,029)
Engineering and public works:						
Engineering:						
Personal service	1,663,790	1,663,790	-	1,537,278	1,537,278	(126,512)
Contractual service	224,168	224,168	96,173	55,862	152,035	(72,133)
Materials and supplies	42,595	42,595	-	37,178	37,178	(5,417)
Capital outlays	36,100	36,100	27,407	6,770	34,177	(1,923)
Total engineering	1,966,653	1,966,653	123,580	1,637,088	1,760,668	(205,985)
Administration:						
Personal service	434,195	434,195	-	414,134	414,134	(20,061)
Contractual service	316,713	316,713	245,660	80,647	326,307	9,594
Materials and supplies	13,650	13,650	-	9,144	9,144	(4,506)
Capital outlays	2,500	2,500	-	463	463	(2,037)
Total administration	767,058	767,058	245,660	504,388	750,048	(17,010)
Street maintenance:						
Personal service	1,549,965	1,549,965	-	1,484,375	1,484,375	(65,590)
Contractual service	945,470	1,002,355	185,266	760,776	946,042	(56,313)
Materials and supplies	160,410	165,410	-	145,174	145,174	(20,236)
Capital outlays	236,110	236,110	9,275	214,973	224,248	(11,862)
Total street maintenance	2,891,955	2,953,840	194,541	2,605,298	2,799,839	(154,001)
Storm drainage:						
Contractual service	23,058	-	-	-	-	-
Total storm drainage	23,058	-	-	-	-	-
Street lights:						
Electricity	290,000	290,000	2,336	302,955	305,291	15,291
Capital outlays	20,846	20,846	19,593	244,986	264,579	243,733
Total street lights	310,846	310,846	21,929	547,941	569,870	259,024
Parking meters and lots:						
Personal service	39,500	39,500	-	45,823	45,823	6,323
Contractual service	54,445	54,445	5,495	12,868	18,363	(36,082)
Materials and supplies	10,000	10,000	1,440	8,206	9,646	(354)
Total parking meters and lots	103,945	103,945	6,935	66,897	73,832	(30,113)

TOWN OF LEESBURG, VIRGINIA

Exhibit B-3

Page 4

GENERAL FUND
SCHEDULE OF EXPENDITURES AND ENCUMBRANCES
COMPARED WITH FINAL BUDGET
Year Ended June 30, 2004

	Budgeted Amounts				Total Encumbrances and Expenditures	Variance with Final Budget Over (Under)
	Original	Final	Encumbrances	Expenditures	Expenditures	
Engineering and public works (continued):						
Refuse collection:						
Contractual service	\$ 2,225,000	\$ 2,225,000	\$ 166,410	\$ 1,981,553	\$ 2,147,963	\$ (77,037)
Materials and supplies	9,425	9,425	-	12,238	12,238	2,813
Total refuse collection	2,234,425	2,234,425	166,410	1,993,791	2,160,201	(74,224)
Maintenance of buildings and grounds:						
Personal service	218,125	218,125	-	202,591	202,591	(15,534)
Contractual service	210,040	206,840	47,718	125,859	173,577	(33,263)
Materials and supplies	137,500	137,500	-	106,773	106,773	(30,727)
Rent	-	3,200	-	3,168	3,168	(32)
Capital outlays	20,497	20,497	-	10,547	10,547	(9,950)
Total maintenance of buildings and grounds	586,162	586,162	47,718	448,938	496,656	(89,506)
Equipment maintenance:						
Personal service	382,505	382,505	-	371,379	371,379	(11,126)
Contractual service	59,435	59,435	-	63,170	63,170	3,735
Materials and supplies	328,950	328,950	-	369,508	369,508	40,558
Capital outlays	13,785	13,785	7,205	9,300	16,505	2,720
Total equipment maintenance	784,675	784,675	7,205	813,357	820,562	35,887
Total engineering and public works	9,668,777	9,707,604	813,978	8,617,698	9,431,676	(275,928)
Debt service:						
Principal	2,790,139	2,790,139	-	2,674,443	2,674,443	(115,696)
Interest and fiscal charges	1,766,704	1,766,714	-	1,784,228	1,784,228	17,514
Total debt service	4,556,843	4,556,853	-	4,458,671	4,458,671	(98,182)
Total expenditures and encumbrances	33,621,139	34,414,768	1,714,783	30,770,844	32,485,627	(1,929,141)
Other financing uses:						
Payment to escrow agent	-	-	-	2,633,814	2,633,814	2,633,814
Transfers out	392,925	392,925	-	580,000	580,000	187,075
Total other financing uses	392,925	392,925	-	3,213,814	3,213,814	2,820,889
Total General Fund expenditures, encumbrances, and other financing uses	\$ 34,014,064	\$ 34,807,693	\$ 1,714,783	\$ 33,984,658	\$ 35,699,441	\$ 891,748

TOWN OF LEESBURG, VIRGINIA

Exhibit C-1

**AIRPORT FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2004
(With Comparative Totals for 2003)**

	2004	2003
ASSETS		
Current Assets:		
Cash, cash equivalents, and temporary cash investments	\$ -	\$ 852,166
Accounts receivable, net	82,690	67,024
Due from other governments	390,839	511,668
Total current assets	473,529	1,430,858
Noncurrent Assets:		
Capital assets:		
Land	9,120,074	9,089,063
Buildings and improvements	6,513,373	2,236,063
Equipment	1,245,130	1,245,130
Hangars	3,353,603	3,184,882
Runway	12,424,868	12,424,868
Construction in progress	67,113	2,007,477
Less: accumulated depreciation	(4,676,035)	(4,084,617)
Total noncurrent assets	28,048,126	26,102,866
Total assets	28,521,655	27,533,724
LIABILITIES		
Current Liabilities:		
Accounts payable	446,145	361,973
Accrued payroll	7,693	2,976
Accrued interest	104,165	99,870
Compensated absences	4,875	172
Retainage payable	144,573	110,014
Advances from other funds	697,736	697,736
Bonds payable	208,410	199,780
Customer deposits and contingent charges	21,022	19,175
Total current liabilities	1,634,619	1,491,696
Noncurrent Liabilities:		
Compensated absences	11,494	7,883
Bonds payable	4,574,617	4,783,506
Total noncurrent liabilities	4,586,111	4,791,389
Total liabilities	6,220,730	6,283,085
NET ASSETS		
Invested in capital assets, net of related debt	23,265,099	21,119,580
Unrestricted (deficit)	(964,174)	131,059
Total net assets	\$ 22,300,925	\$ 21,250,639

TOWN OF LEESBURG, VIRGINIA

Exhibit C-2

AIRPORT FUND

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended June 30, 2004

(With Comparative Totals for 2003)

	2004	2003
Operating Revenues:		
Charges for services	\$ 867,016	\$ 848,521
Total operating revenues	867,016	848,521
Operating Expenses:		
Personal service	310,701	279,928
Contractual services	121,156	80,736
Depreciation	591,418	500,643
Other charges	117,298	82,286
Total operating expenses	1,140,573	943,593
Operating loss	(273,557)	(95,072)
Nonoperating Revenues (Expenses):		
Interest on investments	723	19,790
Interest and fiscal charges on bonds	(228,476)	(262,527)
Loss on disposal of assets	-	(71,636)
Total nonoperating expenses, net	(227,753)	(314,373)
Loss before grants and transfers	(501,310)	(409,445)
Capital grant revenue	1,736,596	1,426,346
Transfers in	-	299,117
Transfers out	(185,000)	(309,665)
Change in net assets	1,050,286	1,006,353
Total net assets, beginning	21,250,639	20,244,286
Total net assets, ending	<u>\$ 22,300,925</u>	<u>\$ 21,250,639</u>

TOWN OF LEESBURG, VIRGINIA

Exhibit C-3

**AIRPORT FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
Year Ended June 30, 2004
(With Comparative Totals for 2003)**

	2004	2003
Cash Flows From Operating Activities:		
Receipts from customers	\$ 853,197	\$ 844,971
Payments to suppliers for goods and services	(226,295)	(179,062)
Payments to employees for services	(297,670)	(279,130)
Net cash provided by operating activities	329,232	386,779
Cash Flows From Noncapital and Related Financing Activities:		
Transfers out	(185,000)	(309,665)
Transfers in	-	299,117
Net cash used in noncapital and related financing activities	(185,000)	(10,548)
Cash Flows From Capital and Related Financing Activities:		
Grant revenue	1,857,425	1,670,025
Acquisition and construction of capital assets	(2,430,106)	(2,944,495)
Interest	(224,181)	(217,076)
Proceeds from debt issuance	209,869	2,131,895
Payments to escrow agent	(207,053)	(85,855)
Principal paid on bonds	(203,075)	(171,777)
Net cash provided by (used in) capital and related financing activities	(997,121)	382,717
Cash Flows From Investing Activities:		
Interest on investments	723	19,790
Net cash provided by investing activities	723	19,790
Net increase (decrease) in cash and cash equivalents	(852,166)	778,738
Cash and Cash Equivalents		
Beginning	852,166	73,428
Ending	\$ -	\$ 852,166
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (273,557)	\$ (95,072)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	591,418	500,643
Changes in assets and liabilities:		
Increase in accounts receivable	(15,666)	(1,710)
Increase (decrease) in:		
Accounts payable	12,159	(16,040)
Accrued liabilities	4,717	(1,066)
Compensated absences	8,314	1,864
Deposits and contingent charges	1,847	(1,840)
Net cash provided by operating activities	\$ 329,232	\$ 386,779
Supplemental Disclosure of Noncash Capital and Related Financing Activities:		
Cash payments for interest, net of capitalized interest of \$32,821 in 2003	\$ 224,181	\$ 217,076
Capital assets acquired through incurrence of accounts and retainage payable	\$ 267,041	\$ 479,279

TOWN OF LEESBURG, VIRGINIA

Exhibit C-4

WATER AND SEWER FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2004
(With Comparative Totals for 2003)

	2004	2003
ASSETS		
Current Assets:		
Cash, cash equivalents, and temporary cash investments	\$ 45,218,192	\$ 42,535,809
Accounts receivable, net	1,890,580	1,408,501
Accrued interest	133,591	93,706
Total current assets	47,242,363	44,038,016
Noncurrent Assets:		
Restricted cash	5,354	589,363
Deferred charges	139,838	149,728
Capital assets:		
Land	1,586,356	1,586,356
Water system	48,608,018	47,253,723
Sewer system	72,736,494	71,218,102
Equipment	2,065,252	1,990,098
Software	13,000	13,000
Construction in progress	5,614,863	3,156,248
Less: accumulated depreciation	(25,819,665)	(23,152,753)
Total capital assets, net	104,804,318	102,064,774
Total noncurrent assets	104,949,510	102,803,865
Total assets	152,191,873	146,841,881
LIABILITIES		
Current Liabilities:		
Accounts payable	532,747	1,153,122
Accrued payroll	115,679	82,777
Accrued insurance claims	-	113,758
Accrued interest	758,410	735,656
Compensated absences	233,824	27,444
Retainage payable	120,857	4,586
Bonds payable	975,918	949,900
Customer deposits and contingent charges	975,427	1,009,287
Total current liabilities	3,712,862	4,076,530
Noncurrent liabilities:		
Compensated absences	64,456	245,181
Bonds payable	32,609,457	33,392,242
Total noncurrent liabilities	32,673,913	33,637,423
Total liabilities	36,386,775	37,713,953
NET ASSETS		
Invested in capital assets, net of related debt	71,218,943	67,722,632
Unrestricted	44,586,155	41,405,296
Total net assets	\$ 115,805,098	\$ 109,127,928

TOWN OF LEESBURG, VIRGINIA

Exhibit C-5

WATER AND SEWER FUND

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended June 30, 2004

(With Comparative Totals for 2003)

	2004	2003
Operating Revenues:		
Charges for services	\$ 8,707,079	\$ 7,809,012
Other	67,730	77,854
Total operating revenues	8,774,809	7,886,866
Operating Expenses:		
Personal service	4,930,981	4,459,019
Contractual services	383,452	370,052
Depreciation	2,676,113	2,664,120
Other charges	2,395,057	2,846,772
Total operating expenses	10,385,603	10,339,963
Operating loss	(1,610,794)	(2,453,097)
Nonoperating Revenues (Expenses):		
Interest on Investments	187,516	645,493
Interest and fiscal charges on bonds	(1,776,894)	(1,745,030)
Total nonoperating expenses, net	(1,589,378)	(1,099,537)
Loss before grants, contributions and transfers	(3,200,172)	(3,552,634)
Capital grant revenue	-	66,439
Installation and connection charges	10,373,083	11,005,753
Developer donated assets	1,262,259	1,045,830
Transfers out	(1,758,000)	(1,803,000)
Change in net assets	6,677,170	6,762,388
Total net assets, beginning	109,127,928	102,365,540
Total net assets, ending	\$ 115,805,098	\$ 109,127,928

TOWN OF LEESBURG, VIRGINIA

Exhibit C-6

WATER AND SEWER FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
Year Ended June 30, 2004
(With Comparative Totals for 2003)

	2004	2003
Cash Flows From Operating Activities:		
Receipts from customers	\$ 8,191,140	\$ 8,011,988
Payments to suppliers for goods and services	(3,499,136)	(2,742,564)
Payments to employees for services	(4,986,182)	(4,453,616)
Other receipts	67,730	77,854
Net cash provided by (used in) operating activities	(226,448)	893,662
Cash Flows From Noncapital and Related Financing Activities:		
Transfers out	(1,758,000)	(1,803,000)
Net cash used in noncapital and related financing activities	(1,758,000)	(1,803,000)
Cash Flows From Capital and Related Financing Activities:		
Connection availability fees	10,373,083	11,005,753
Grant revenue	-	66,439
Acquisition and construction of capital assets	(3,936,875)	(4,986,041)
Interest	(1,621,118)	(1,674,731)
Proceeds from debt issuance	-	2,335,494
Payments to escrow agent and issuance costs	-	(2,335,494)
Principal paid on bonds	(879,899)	(1,467,401)
Net cash provided by capital and related financing activities	3,935,191	2,944,019
Cash Flows From Investing Activities:		
Interest on investments	147,631	930,233
Net cash provided by investing activities	147,631	930,233
Net increase in cash and cash equivalents	2,098,374	2,964,914
Cash and Cash Equivalents:		
Beginning	43,125,172	40,160,258
Ending	\$ 45,223,546	\$ 43,125,172
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$ (1,610,794)	\$ (2,453,097)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	2,676,113	2,664,120
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(482,079)	91,249
Increase (decrease) in:		
Accounts payable	(720,627)	474,260
Accrued liabilities	(80,856)	(27,118)
Compensated absences	25,655	32,521
Deposits and contingent charges	(33,860)	111,727
Net cash provided by (used in) operating activities	\$ (226,448)	\$ 893,662
Supplemental Disclosure of Noncash Capital and Related Financing Activities:		
Developer donated capital improvements	\$ 1,262,259	\$ 1,045,830
Cash payments for interest, net of capitalized interest, of \$73,596 in 2003	\$ 1,621,118	\$ 1,674,731
Capital assets acquired through incurrence of accounts and retainage payable	\$ 558,671	\$ 342,148



STATISTICAL SECTION

TOWN OF LEESBURG, VIRGINIA

GENERAL FUND EXPENDITURES/ENCUMBRANCES AND OTHER USES BY FUNCTION LAST TEN FISCAL YEARS

Fiscal Year June 30,	Legislative	Executive	Legal	Planning Zoning and Development	Finance	Public Safety
1995	\$ 114,624	\$ 658,369	\$ 282,669	\$ 628,132	\$ 596,423	\$ 2,190,350
1996	122,214	690,955	113,577	715,833	611,683	2,436,787
1997	155,774	774,422	107,913	684,527	758,488	2,762,700
1998	159,559	867,431	156,104	813,993	724,237	3,162,939
1999	167,398	1,040,358	233,551	846,028	756,060	3,410,797
2000	149,648	1,549,784	225,281	948,233	933,181	4,369,798
2001	173,991	2,410,790	180,051	1,037,358	1,302,083	5,315,388
2002	215,402	2,345,426	208,859	1,190,979	1,362,112	5,565,674
2003	231,213	2,696,537	187,628	1,473,677	1,637,512	6,956,599
2004	271,946	2,915,162	192,706	1,652,993	1,848,851	6,744,257

Note: (1) In fiscal year 2003, nondepartmental charges were allocated to the respective function.

(2) In fiscal year 2004 the Debt Service Fund was eliminated. To be consistent with prior years, the debt service, now paid by the General Fund, has been included with transfers and other uses.

Table 1

Parks and Recreation	Balch Library	Engineering and Public Works	(1) Non-Departmental	(2) Transfers Out and Other Uses	Totals
\$ 1,640,261	\$ 132,291	\$ 3,966,226	\$ 316,274	\$ 2,250,395	\$ 12,776,014
1,522,905	160,430	4,315,976	300,828	2,767,595	13,758,783
1,607,427	171,853	4,521,562	290,887	3,587,057	15,422,610
1,738,889	187,063	4,850,900	304,710	3,229,061	16,194,886
2,091,713	184,599	5,621,826	391,568	9,801,190	24,545,088
2,605,522	199,967	6,186,509	438,351	3,782,888	21,389,162
3,262,640	283,357	6,433,414	2,008,279	4,394,970	26,802,321
3,466,557	324,537	7,903,920	590,477	6,721,170	29,895,113
4,187,111	348,453	8,256,677	-	13,587,731	39,563,138
4,654,875	314,490	9,431,676	-	7,672,485	35,699,441

TOWN OF LEESBURG, VIRGINIA**GENERAL FUND REVENUES AND OTHER SOURCES BY SOURCE
LAST TEN FISCAL YEARS**

Fiscal Year June 30,	General Property and Other Local Taxes	Permits, Fees and Licenses	Fines and Forfeitures	Use of Money and Property
1995	\$ 8,862,261	\$ 456,049	\$ 137,582	\$ 193,840
1996	9,437,072	508,384	110,217	283,798
1997	11,017,098	276,934	72,379	668,371
1998	12,209,764	409,749	152,079	187,734
1999	13,667,811	791,667	177,640	401,312
2000	15,433,679	784,436	172,649	391,541
2001	17,657,871	1,027,217	171,232	505,411
2002	18,144,075	420,412	193,034	394,450
2003	20,061,883	392,940	246,496	323,579
2004	23,231,607	804,774	295,941	270,078

Table 2

Charges for Services	Miscellaneous	Inter- governmental	Transfers in and Other Sources	Totals
\$ 831,632	\$ 69,154	\$ 1,175,872	\$ 785,000	\$ 12,511,390
805,580	112,523	1,243,298	1,211,750	13,712,622
834,442	60,108	1,409,113	1,420,000	15,758,445
1,012,524	209,463	1,963,994	1,426,000	17,571,307
1,163,998	187,334	1,957,235	8,320,541	26,667,538
1,348,693	86,601	2,147,224	1,359,550	21,724,373
1,411,357	193,618	2,463,425	2,110,120	25,540,251
1,513,834	251,948	3,610,578	2,782,788	27,311,119
2,336,501	294,356	4,179,063	12,273,795	40,108,613
2,778,627	573,041	4,317,760	4,795,229	37,067,057

TOWN OF LEESBURG, VIRGINIA**GENERAL FUND TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS**

Fiscal Year June 30,	General Property Taxes	Utility Taxes	Cable TV Franchise Taxes	Sales and Use Taxes	Bank Franchise Taxes
1995	\$ 4,021,483	\$ 816,522	\$ 148,543	\$ 1,124,860	\$ 113,606
1996	4,132,899	877,400	174,563	1,140,873	118,849
1997	4,669,585	1,293,492	200,988	1,344,206	144,585
1998	5,225,509	1,418,015	230,792	1,507,739	153,219
1999	5,516,057	1,436,566	256,652	2,101,029	171,445
2000	6,251,410	1,400,871	259,724	2,412,330	248,959
2001	7,192,395	1,665,134	184,738	2,871,598	239,417
2002	7,370,961	1,818,538	241,753	2,781,417	299,268
2003	8,722,873	1,841,121	238,039	2,934,346	353,900
2004	9,936,500	1,998,824	321,855	3,530,722	357,555

Table 3

Cigarette Taxes	Meals Taxes	Transient Occupancy Taxes	Business and Occupational Licenses	Motor Vehicle Licenses	Other Local Taxes	Totals
\$ 335,354	\$ 757,560	\$ 150,598	\$ 986,371	\$ 390,123	\$ 17,241	\$ 8,862,261
333,188	1,089,841	170,835	971,091	409,699	17,834	9,437,072
402,547	1,143,867	246,658	1,109,468	443,358	18,344	11,017,098
493,349	1,235,103	256,174	1,193,533	478,697	17,634	12,209,764
507,213	1,412,488	329,495	1,363,463	499,348	74,055	13,667,811
489,574	1,721,151	381,207	1,603,141	535,539	129,773	15,433,679
555,486	1,847,475	441,303	1,978,244	572,384	109,697	17,657,871
578,836	2,049,676	411,081	1,785,499	629,897	177,149	18,144,075
581,567	2,145,628	417,256	1,985,080	671,234	170,839	20,061,883
1,065,875	2,473,345	556,151	2,087,754	696,918	206,108	23,231,607

TOWN OF LEESBURG, VIRGINIA

**PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS**

Fiscal Year June 30,	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections
1995	\$ 3,824,745	\$ 3,681,547	96.26%	\$ 168,461
1996	4,158,355	3,943,430	94.83%	142,886
1997	4,471,824	4,312,170	96.43%	213,072
1998	4,815,133	4,774,333	99.15%	176,668
1999	5,501,811	5,325,547	96.80%	155,333
2000	6,120,233	6,070,831	99.19%	125,659
2001	7,170,295	6,998,162	97.60%	129,860
2002	8,418,297	8,226,781	97.73%	122,410
2003	10,010,786	9,589,568	95.79%	196,136
2004	11,533,100	11,128,613	96.49%	104,239

Note: Total tax levy includes revenue from the Commonwealth for personal property tax reimbursements under the Personal Property Tax Relief Act of 1998.

Current tax collections include revenue received from the Commonwealth of Virginia for the Personal Property Tax Relief.

Table 4

Total Tax Collections	Total Collection as Percent of Current Levy	Outstanding Delinquent Taxes	Percent of Current Levy Delinquent
\$ 3,850,008	100.66%	\$ 646,766	16.91%
4,086,316	98.27%	701,657	16.87%
4,525,242	101.19%	668,284	14.94%
4,951,001	102.82%	525,113	10.91%
5,480,880	99.62%	478,360	8.69%
6,196,490	101.25%	522,822	8.54%
7,128,022	99.41%	565,984	7.89%
8,349,191	99.18%	568,659	6.76%
9,785,704	97.75%	610,606	6.10%
11,232,852	97.40%	579,967	5.03%

Table 5

TOWN OF LEESBURG, VIRGINIA

**ASSESSED AND ESTIMATED ACTUAL VALUE OF PROPERTY (1)
LAST TEN FISCAL YEARS**

Fiscal Year June 30,	Real Estate		Personal Property		Total Assessed Value	Total Actual Value	Percent of Assessed To Actual
	Assessed Value	Actual Value	Assessed Value	Actual Value			
1995	\$ 1,468,889,066	\$ 1,468,889,066	\$ 101,811,297	\$ 101,811,297	\$ 1,570,700,363	\$ 1,570,700,363	100%
1996	1,544,407,440	1,544,407,440	143,696,016	143,696,016	1,688,103,456	1,688,103,456	100%
1997	1,627,635,673	1,627,635,673	160,730,872	160,730,872	1,788,366,545	1,788,366,545	100%
1998	1,757,299,342	1,757,299,342	172,259,762	172,259,762	1,929,559,104	1,929,559,104	100%
1999	1,915,205,930	1,915,205,930	182,491,008	182,491,008	2,097,696,938	2,097,696,938	100%
2000	2,180,353,894	2,180,353,894	245,047,444	245,047,444	2,425,401,338	2,425,401,338	100%
2001	2,572,698,100	2,572,698,100	281,691,890	281,691,890	2,854,389,990	2,854,389,990	100%
2002	3,172,644,974	3,172,644,974	311,251,374	311,251,374	3,483,896,348	3,483,896,348	100%
2003	3,661,931,906	3,661,931,906	298,308,272	298,308,272	3,960,240,178	3,960,240,178	100%
2004	4,131,885,820	4,131,885,820	353,165,838	353,165,838	4,485,051,658	4,485,051,658	100%

Note: (1) Real and personal property tax assessments are made by the Commissioner of the Revenue for Loudoun County for concurrent use of the County and the Town property. Real and personal property taxes of public service corporations are assessed by the State Corporation Commission.

Table 6

TOWN OF LEESBURG, VIRGINIA

**PROPERTY TAX RATES
ALL DIRECT AND OVERLAPPING GOVERNMENTS
(PER \$100 OF ASSESSED VALUE)
LAST TEN FISCAL YEARS**

Fiscal Year June 30,	Real Estate			Personal Property		
	Town	County	Totals	Town	County	Totals
1995	\$ 0.21	\$ 0.99	\$ 1.20	\$ 1.00	\$ 4.20	\$ 5.20
1996	0.21	1.03	1.24	1.00	4.20	5.20
1997	0.22	1.06	1.28	1.00	4.20	5.20
1998	0.22	1.11	1.33	1.00	4.20	5.20
1999	0.22	1.11	1.33	1.00	4.20	5.20
2000	0.22	1.08	1.30	1.00	4.20	5.20
2001	0.22	1.08	1.30	1.00	4.20	5.20
2002	0.22	1.05	1.27	1.00	4.20	5.20
2003	0.22	1.11	1.33	1.00	4.20	5.20
2004	0.22	1.11	1.33	1.00	4.20	5.20

- Notes:
- (1) The Commonwealth of Virginia has no limitations on local tax rates.
 - (2) Real estate taxes are due in semi-annual installments by June 5 and December 5, and become delinquent thereafter.
 - (3) No discounts are allowed for early payment.
 - (4) Once delinquent, taxes are subject to a penalty of 10% or \$2.00, whichever is greater, and beginning July 1 and January 1 of the year after the taxes are levied, interest of 10% is charged on the taxes and penalty due.
 - (5) Residents of incorporated towns in the Commonwealth of Virginia are subject to real estate and personal property taxes levied by the town and county.

TOWN OF LEESBURG, VIRGINIA

Table 7

**RATIO OF NET GENERAL OBLIGATION BONDED DEBT
TO ASSESSED VALUE AND NET GENERAL OBLIGATION BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS**

Fiscal Year June 30,	Population (1)	Assessed Value	Gross Bonded Debt	Debt Payable From Enterprise Funds	Net General Bonded Debt	Ratio of Net General Bonded Debt to Assessed Value	Net General Bonded Debt Per Capita
1995	20,700	\$ 1,570,700,363	\$ 54,283,413	\$ 33,582,173	\$ 20,701,240	1.32%	\$ 1,000
1996	22,800	1,688,103,456	59,848,189	33,703,324	26,144,865	1.55%	1,147
1997	23,900	1,788,366,545	57,647,965	32,890,332	24,757,633	1.38%	1,036
1998	26,000	1,929,559,104	56,832,129	33,455,209	23,376,920	1.21%	899
1999	27,000	2,097,696,938	64,481,900	32,475,057	32,006,843	1.53%	1,185
2000	28,311	2,425,401,338	63,247,720	32,887,688	30,360,032	1.39%	1,072
2001	30,650	2,854,389,990	82,866,250	41,109,941	41,756,309	1.62%	1,362
2002	32,600	3,483,896,348	85,239,154	41,276,866	43,962,288	1.26%	1,349
2003	33,470	3,960,240,178	81,302,260	33,447,721	47,854,539	1.21%	1,430
2004	34,768	4,485,051,658	79,317,888	33,017,315	46,300,573	1.03%	1,331

Note: (1) Source: Town of Leesburg Department of Planning, Zoning and Development.

TOWN OF LEESBURG, VIRGINIA**Table 8****COMPUTATION OF LEGAL DEBT MARGIN****June 30, 2004**

Assessed value of real property		\$ 4,131,885,820
Debt limit, 10 percent of assessed value		\$ 413,188,582
Amount of debt applicable to debt limit:		
Gross bonded debt	\$ 79,317,888	
Less: Article VII enterprise debt	<u>33,017,315</u>	
Total amount of debt applicable to debt limitation		<u>46,300,573</u>
Legal debt margin		<u>\$ 366,888,009</u>

Note: Section 15.1-176 of 1950 *Code of Virginia*, as amended, limits to 10% of the assessed valuation of the real estate subject to taxation as the amount of debt which can be issued by the Town. Debt includes any bonds or other interest bearing obligations including existing indebtedness. Excluded from debt margin calculation are bonds payable from Enterprise Funds issued under Article VII Section 10(a)(2) of the Constitution of Virginia (formerly Clause (B) of Section 127 of the Constitution of Virginia). This exclusion applies to the 1997 and 1999 bond obligations.

TOWN OF LEESBURG, VIRGINIA**Table 9****COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT
June 30, 2004**

Name of Governmental Unit	Net Debt Outstanding	Percentage Applicable to This Governmental Unit	Share of Debt
Direct Debt:			
Town of Leesburg General Bonded Debt	\$ 46,300,573	100%	\$ 46,300,573
Overlapping Debt*:			
Loudoun County General Bonded Debt	<u>632,757,090</u>	11.6%	<u>73,399,822</u>
Total Direct and Overlapping Debt	<u>\$ 679,057,663</u>		<u>\$ 119,700,395</u>

Note: * Overlapping debt is not bonded debt of the Town of Leesburg on either a direct or contingent basis, but represents the share of debt of overlapping governmental entities which the residents of the Town of Leesburg are obligated to pay through direct tax levies and charges for services of these respective governmental entities. The debt of Loudoun County is a direct general obligation debt of the County which provides facilities that benefit all county residents including those of incorporated towns.

TOWN OF LEESBURG, VIRGINIA

Table 10

**RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR
GENERAL OBLIGATION BONDED DEBT TO TOTAL GENERAL FUND EXPENDITURES/ENCUMBRANCES
LAST TEN FISCAL YEARS**

Fiscal Year June 30,	Principal	Interest	Total Debt Service	Total General Fund Expenditures and Encumbrances	Percentage of Direct Debt Service to Total General Expenditures/ Encumbrances
1995	\$ 1,040,975	\$ 1,024,590	\$ 2,065,565	\$ 12,776,014	16.17%
1996	1,156,375	1,077,608	2,233,983	13,758,783	16.24%
1997	1,387,232	1,526,073	2,913,305	15,422,610	18.89%
1998	1,381,343	1,306,175	2,687,518	16,194,886	16.59%
1999	1,431,559	1,053,220	2,484,779	18,060,812	13.76%
2000	1,690,554	1,660,967	3,351,521	21,389,162	15.67%
2001	1,632,409	1,431,412	3,063,821	26,327,514	11.64%
2002	1,994,021	2,214,126	4,208,147	29,895,113	14.08%
2003	2,422,716 (3)	2,006,569	4,429,285	33,783,051	13.11%
2004	2,494,595	1,773,895	4,268,490	33,065,627	12.91%

- Notes:
- (1) Expenditures include operating transfers out and exclude bond refunding payouts.
 - (2) Principal and interest payments do not include payments made on advance bond refunding or lease obligation payments.
 - (3) Principal amount does not include general obligation debt transferred to the Airport Fund.

TOWN OF LEESBURG, VIRGINIA

Table 11

**SCHEDULE OF ENTERPRISE FUNDS BOND COVERAGE
LAST TEN FISCAL YEARS**

Fiscal Year June 30,	Gross Revenue (1)	Operating Expenses (2)	Available for Debt Service	Principal(3)	Interest (3)	Totals	Coverage Ratio
1995	\$ 8,940,187	\$ 2,557,246	\$ 6,382,941	\$ 793,625	\$ 1,965,625	\$ 2,759,250	2.31
1996	9,662,636	3,079,402	6,583,234	778,849	1,961,142	2,739,991	2.40
1997	10,209,843	3,021,232	7,188,611	812,992	2,006,306	2,819,298	2.55
1998	12,432,804	4,270,234	8,162,570	1,021,528	1,501,546	2,523,074	3.24
1999	15,040,200	4,612,271	10,427,929	980,782	1,938,119	2,918,901	3.57
2000	18,085,317	5,496,632	12,588,685	1,130,927	1,780,043	2,910,970	4.32
2001	23,173,336	6,840,657	16,332,679	1,137,947	1,694,816	2,832,763	5.77
2002	24,757,738	6,762,054	17,995,684	1,485,632	1,877,983	3,363,615	5.35
2003	22,945,038	8,118,793	14,826,245	1,639,178	2,007,557	3,646,735	4.07
2004	23,202,002	8,258,645	14,943,357	1,082,974	2,005,370	3,088,344	4.84

Notes: (1) Gross revenue includes operating, nonoperating revenues, grants, connection charges, and donated assets.

(2) Operating expenses exclude depreciation.

(3) Excludes capital lease principal and interest expense.

TOWN OF LEESBURG, VIRGINIA

Table 12

DEMOGRAPHIC STATISTICS LAST TEN FISCAL YEARS

Fiscal Year June 30,	Population (1)	Per Capita Income (2)	Median Age (2)	Education Level in Years of Formal Schooling (2)	Enrollment (3)	Unemployment Rate (2)
1995	20,700	\$ 29,447	31.60	13.00	3,963	2.80%
1996	22,800	31,251	31.60	13.00	4,330	2.40%
1997	23,900	32,301	31.60	13.00	4,697	2.00%
1998	26,000	34,691	31.60	13.00	5,011	1.30%
1999	27,000	37,542	31.60	13.00	5,292	1.10%
2000	28,311	40,290	33.60	13.00	6,868	0.90%
2001	30,650	41,660	33.60	13.00	6,767	2.90%
2002	32,600	42,826	33.60	13.00	7,986	4.60%
2003	33,470	44,589	33.60	13.00	7,919	4.50%
2004	34,768	44,687	33.10	13.00	8,465	2.10%

Notes: (1) Source: Town of Leesburg Department of Planning, Zoning and Development.

(2) This information is not maintained for towns in Virginia. Information provided is for Loudoun County, Virginia, of which the Town of Leesburg is the largest incorporated town. Source: The Weldon Cooper Center for Public Service, University of Virginia and the Loudoun County Department of Planning, Zoning and Development.

(3) Source: Loudoun County School Board.

Table 13

TOWN OF LEESBURG, VIRGINIA

REAL PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS
LAST TEN FISCAL YEARS

Fiscal Year June 30,	Commercial Construction		Residential Construction		Total Deposits Commercial Banks	Real Property Value
	Number of Units	Value	Number of Units	Value		
1995	1	\$ 250,000	424	\$ 38,869,015	\$ 234,210,968	\$ 1,468,889,066
1996	6	2,295,000	680	55,204,799	274,743,931	1,544,407,440
1997	4	2,950,000	385	36,123,910	285,478,131	1,627,635,673
1998	14	13,905,954	492	45,206,500	313,456,356	1,757,299,342
1999	22	16,207,004	483	44,529,500	342,073,520	1,915,205,930
2000	48	23,419,780	667	63,215,771	428,139,881	2,180,353,894
2001	24	16,213,547	940	80,642,017	424,769,068	2,572,698,100
2002	3	8,200,000	522	47,787,100	496,595,359	3,172,644,974
2003	11	31,835,500	630	56,550,000	631,246,849	3,661,931,906
2004	23	14,402,823	389	36,226,000	641,897,728	4,131,885,820

Note: Source: Town of Leesburg Department of Planning, Zoning and Development.

Table 14

TOWN OF LEESBURG, VIRGINIA

PRINCIPAL TAXPAYERS

June 30, 2004

Taxpayer	Type of Business	2004 Assessed Value	% Total Assessed Value
Chelsea GSA Realty	Shopping center and land	\$ 74,767,000	1.81%
Verizon	Telecommunications	38,053,053	0.92%
Windsor at Fieldstone	Apartments	32,417,800	0.78%
Fairfield	Apartments	27,033,900	0.65%
Virginia Electric and Power	Electric utility	25,032,208	0.61%
GRK Battlefield LLC	Shopping center	22,214,100	0.54%
Fort Evans Plaza	Shopping center	19,907,900	0.48%
Edwards Ferry LP	Apartments	19,000,000	0.46%
Rehau	Commercial	18,585,800	0.45%
Arcadia Development	Residential land development	17,722,400	0.43%
		<u>\$ 294,734,161</u>	<u>7.13%</u>

Table 15**TOWN OF LEESBURG, VIRGINIA****MISCELLANEOUS STATISTICS****June 30, 2004**

Date of Incorporation	1758
Form of Government	Council-Manager
Area	12.32 Square Miles
Bond Ratings:	
Moody's Investor Service, Inc.	A1
Standard and Poor's Credit Market Services	AA-
Number of Employees (excluding police):	
Classified	185
Exempt	68
Town of Leesburg facilities and services:	
Leesburg Executive Airport:	
Storage hangars	50
Tiedown spaces	143
Based aircraft	240
Miles of streets	206
Number of street lights	2,060
Recreation and culture:	
Number of parks	16
Park acreage	371
Public tennis courts	7
Police protection:	
Number of stations	1
Number of policemen and officers	64
Municipal Water Department:	
Number of customers	13,315
Average daily consumption (gallons)	3,828,459
Miles of water mains	205
Sewers:	
Miles of sanitary sewers	172
Zoning permits issued	1,529
Facilities not reported in the reporting entity:	
Fire protection:	
Number of stations	2
Number of firemen and officers	87
Rescue services:	
Number of stations	1
Number of rescue workers and officers	45
Education:	
Number of schools	11
Number of students	8,465
Number of public libraries	2
Number of volumes	110,000

COMPLIANCE SECTION

TOWN OF LEESBURG, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2004

Federal Grantor/State Pass-Through Grantor/ Program Title	Federal CFDA Number	Expenditures
DEPARTMENT OF THE INTERIOR		
<u>Pass-through payments:</u>		
<u>Commonwealth of Virginia, Department of Historic Resources</u> Historic Preservation Fund Grants-In-Aid	15.904	\$ 17,000
DEPARTMENT OF JUSTICE		
<u>Direct payments:</u>		
Local Law Enforcement Block Grants Program	16.592	12,941
Public Safety Partnership and Community Policing Grants	16.710	33,713
<u>Pass-through payments:</u>		
<u>County of Loudoun, Virginia</u> Part D - Research, Evaluation, Technical Assistance and Training	16.542	55,186
<u>Commonwealth of Virginia, Department of Criminal Justice</u> Byrne Formula Grant Program	16.580	7,725
Total Department of Justice		109,565
DEPARTMENT OF TRANSPORTATION		
<u>Direct payments:</u>		
Airport Improvement Program	20.106	553,239
<u>Pass-through payments:</u>		
<u>Commonwealth of Virginia, Department of Motor Vehicles</u> State and Community Highway Safety	20.600	1,500
Total Department of Transportation		554,739
DEPARTMENT OF HOMELAND SECURITY		
<u>Pass-through payments:</u>		
<u>Commonwealth of Virginia, Department of Emergency Services</u> Public Assistance Grant	97.036	59,908
<u>County of Loudoun, Virginia</u> Public Assistance Grant	97.036	117,780
Total Department of Homeland Security		177,688
Total Expenditures of Federal Awards		\$ 858,992

TOWN OF LEESBURG, VIRGINIA

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of Leesburg, Virginia and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Federal Financial Assistance – The Single Audit Act Amendments of 1996 (Public Law 104-156) and OMB Circular A-133 define federal financial assistance as grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations or other assistance. Federal financial assistance does not include direct federal cash assistance to individuals.

Direct Payments – Assistance received directly from the Federal government is classified as direct payments on the "Schedule of Expenditures of Federal Awards".

Pass-through Payments – Assistance received in a pass-through relationship from entities other than the Federal government is classified as pass-through payments on the "Schedule of Expenditures of Federal Awards".

Major Programs – The Single Audit Act Amendments of 1996 and OMB Circular A-133 establish the criteria to be used in defining major programs. Major programs for the Town of Leesburg, Virginia were determined using a risk-based approach in accordance with OMB Circular A-133.

Catalog of Federal Domestic Assistance – The Catalog of Federal Domestic Assistance (CFDA) is a government-wide compendium of individual federal programs. Each program included in the catalog is assigned a five-digit program identification number (CFDA Number), which is reflected in the accompanying schedule.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and Members of Council
Town of Leesburg
Leesburg, Virginia

We have audited the basic financial statements of the Town of Leesburg, Virginia, as of and for the year ended June 30, 2004, and have issued our report thereon dated November 5, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Leesburg, Virginia's, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Town's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as item 04-01.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition referred to above to be a material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management of the Town in a separate letter dated November 5, 2004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Leesburg, Virginia's, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We also performed tests of compliance with the following program specific requirements as set forth in the Auditor of Public Accounts *Specifications for Audits of Counties, Cities and Towns*: the Virginia Department of Transportation's Requirements for Highway Maintenance Funds. However, providing an opinion on compliance with those provisions and specifications was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Town Council, management, the Auditor of Public Accounts and other federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

PBGH, LLP

Harrisonburg, Virginia
November 5, 2004

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and Members of Council
Town of Leesburg
Leesburg, Virginia

Compliance

We have audited the compliance of the Town of Leesburg, Virginia, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major Federal program for the year ended June 30, 2004. The Town of Leesburg's major Federal program is identified in the Summary of Independent Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal program is the responsibility of the Town of Leesburg's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town's compliance with those requirements.

In our opinion, the Town of Leesburg, Virginia, complied, in all material respects, with the requirements referred to above that are applicable to its major Federal program for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the Town of Leesburg is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Town's ability to administer a major Federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 04-02 and 04-03.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are not material weaknesses.

This report is intended for the information of the Town Council, management, the Auditor of Public Accounts and other federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties.

PBGH, LLP

Harrisonburg, Virginia
November 5, 2004

TOWN OF LEESBURG, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2004

1. SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified	<u> √ </u> Yes	<u> </u> No
Reportable conditions identified that are not considered to be material weaknesses	<u> </u> Yes	<u> √ </u> None Reported
Noncompliance material to financial statements noted	<u> </u> Yes	<u> √ </u> No

Federal awards:

Internal control over major programs:

Material weaknesses identified	<u> </u> Yes	<u> √ </u> No
Reportable conditions identified that are not considered to be material weaknesses	<u> √ </u> Yes	<u> </u> None Reported

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	<u> √ </u> Yes	<u> </u> No
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TOWN OF LEESBURG, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2004

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
20.106	Airport Improvement Program

Dollar threshold used to distinguish between type A and type B programs \$300,000

Auditee qualified as low-risk auditee? _____ Yes ☒ No

II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

A. Reportable Conditions in Internal Control

04-01 Cash reconciliations are an essential internal control to ensure transactions are recorded in a timely and accurate manner. Cash reconciliations are also an essential internal control to guard against the misappropriation of assets. Our audit procedures indicated that complete and accurate reconciliations had not been completed throughout the year largely due to the turnover of key positions in the finance department. We recommend that monthly reconciliations be completed between the bank account, cash accountability, and individual funds.

B. Compliance Findings

None

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

04-02 OMB Circular A-133 Subpart C, Section 300(c) states that, "the auditee shall identify in its accounts, all Federal awards received and expended and the Federal Programs under which they were received." A listing of Federal Programs was not available upon request. Our recommendation is to assign an individual to oversee all Federal Programs for which the Town receives federal funds and reconcile the receipts and expenditures for each program on a quarterly basis.

TOWN OF LEESBURG, VIRGINIA**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**
Year Ended June 30, 2004

04-03 Compliance requirements contained in OMB Circular A-133 and specific requirements contained within individual grants have not been adequately monitored by the Town.

We recommend that the Town designate a qualified person to oversee all federal grants. The individual would be responsible to determine compliance requirements prior to the final approval of all grants and ensure that the individuals responsible for the Federal program are aware of and in compliance with all requirements for the duration of each program.

TOWN OF LEESBURG, VIRGINIA

CORRECTIVE ACTION PLAN Year Ended June 30, 2004

- 04-01 The finance department hired a staff accountant starting October 25, 2004. The staff accountant will prepare reconciliations for all cash accounts on a monthly basis. Each reconciliation will then be reviewed and approved by the Chief Accountant.
- 04-02 The finance department has hired a staff accountant starting October 25, 2004. One of the main duties of the staff accountant will be to track and reconcile the federal grant revenue and expenditures.
- 04-03 In the past, each department was responsible for monitoring the compliance requirements for each of the federal grants. The Finance Department has hired a staff accountant, effective October 25, 2004, to help in tracking and reconciling the federal grant revenue and expenditures. Also, it is the Town's intention to have the staff accountant implement an "audit program" to review the expenditures and ensure that the funds are expended in accordance with grant requirements.

TOWN OF LEESBURG, VIRGINIA

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**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2004**

The Town has taken the following corrective action on findings from the prior audit report:

03-01 CFDA Number Not Applicable

Audit Finding:

OMB Circular A-133 Subpart C, Section 300(c) states that, "the auditee shall identify in its accounts, all Federal awards received and expended and the Federal Programs under which they were received". A listing of Federal Programs was not available upon request and required significant assistance to produce an accurate listing. Our recommendation is to assign an individual to oversee all Federal Programs for which the Town receives federal funds and reconcile the receipts and expenditures for each program on a quarterly basis.

Corrective Action Plan:

The corrective action plan from the prior year has not been implemented. During fiscal year 2004, the Finance Department had turnover in three key positions: Director of Finance, Chief Accountant, and Staff Accountant. Due to the turnover, the Town of Leesburg was unable to implement the auditors' recommendations. The Town has filled the Director of Finance and Chief Accountant positions and added an additional position, Operations Manager. Further, the Staff Accountant position has been filled effective October 25, 2004. It is the intention of the Town of Leesburg to have the Staff Accountant responsible for reconciling the federal revenues and expenditures on a quarterly basis.

03-02 CFDA Number 14.246 Community Development Block Grant – Economic
Development Initiative

Audit Finding:

The grant application and agreement set forth the following requirements for projects involving construction:

- (1) Ensure that the draw down of grant funds allocated for construction costs will be at a rate not to exceed the percentage of project completion.
- (2) Ensure that 10 percent of payments for projects costs will be withheld from the construction contractor pending completion.

TOWN OF LEESBURG, VIRGINIA

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**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2004**

Based on our review of the application for payment submitted by the contractor and certified by the engineer, no retainage was withheld on the construction contract. In addition, the draw down of grant funds were based on 100 percent of the application for payment resulting in the entire grant being expended while the construction project was approximately 50 percent complete. The above resulted in advanced draw downs of federal funds in excess of allowable cost of approximately \$352,000.

We recommend that the Town designate a qualified person to oversee all federal grants. The individual would be responsible to determine compliance requirements prior to the final approval of all grants and ensure that the individuals responsible for the Federal program are aware of and in compliance with all requirements for the duration of each program.

Corrective Action Plan:

Construction for the project funded by the Community Development Block Grant was completed during fiscal year 2004. Therefore, the prior year findings for draw-downs and retainage are no longer applicable. Further, we have hired a Staff Accountant effective October 25, 2004. One of the Staff Accountant's responsibilities will be to track and reconcile the federal grant revenue and expenditures. Further, it is our intention to have the Staff Accountant implement an "audit program" of the federal expenditures to ensure that the funds are being expended in accordance with grant requirements.